



PUBLIC PROTECTION CABINET

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August 10, 2011

The Honorable Kathleen Sebelius
Secretary, Department of Health & Human Services
200 Independence Avenue, S.W.
Washington, DC 20201

**Re: Grants to Support States in Health Insurance Rate Review – Cycle II
Applicant Cover Letter**

Dear Secretary Sebelius:

The attached grant application is being submitted by the Commonwealth of Kentucky, Kentucky Department of Insurance (the "Department"), in order to request funding for the Health Insurance Rate Review – Cycle II Project (the "Project"). The goal of the Project is to expand, improve, and enhance the Department of Insurance's existing rate review and data collection processes in response to new requirements as set forth in the Patient Protection and Affordable Care Act of 2010, the Health Care and Education Reconciliation Act of 2010, and the federal government's proposed final rule regarding Rate Increase Disclosure and Review. The Project Title is "Grants to Support States in Health Insurance Rate Review – Cycle II" and the Project Director is:

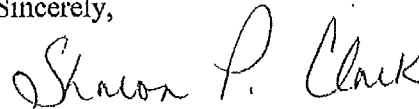
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Pursuant to existing Kentucky statutes, the Department has the authority to review all individual, small group, association, and employer-organized association rate filings. The Department also has the authority to disapprove or request modifications of rating factors. In the large group market, the Department has the authority to review the rating methodology used to determine any rate.

With Cycle I grant funds, the Department hired additional staff, expanded its access to actuarial resources, initiated the development of a mechanism to make rate filing information more readily available to the public, and collaborated with the NAIC and provided funding to enhance the SERFF database in order to collect better rate data. With Cycle II grant funds, the Department proposes to continue to fund the rate review positions established under the Cycle I grant; to continue to enhance, maintain, and support consumer outreach efforts; to continue to improve internal rate review processes; and to enhance technological capabilities in order to capture required and relevant rate data, analyze the captured data, and provide necessary reports on rate data.

My assurances are given that grant funds will only be used to enhance Kentucky's existing rate review efforts and will not be used as a substitute for existing funding for such efforts. Please contact the Project Director listed above with any questions or if any additional information is needed to review this grant proposal.

Sincerely,

A handwritten signature in cursive script that reads "Sharon P. Clark".

Sharon P. Clark
Commissioner

EXHIBIT 1

Definitions

KRS 304.17A-005

304.17A-005 Definitions for subtitle.

As used in this subtitle, unless the context requires otherwise:

- (1) "Association" means an entity, other than an employer-organized association, that has been organized and is maintained in good faith for purposes other than that of obtaining insurance for its members and that has a constitution and bylaws;
- (2) "At the time of enrollment" means:
 - (a) At the time of application for an individual, an association that actively markets to individual members, and an employer-organized association that actively markets to individual members; and
 - (b) During the time of open enrollment or during an insured's initial or special enrollment periods for group health insurance;
- (3) "Base premium rate" means, for each class of business as to a rating period, the lowest premium rate charged or that could have been charged under the rating system for that class of business by the insurer to the individual or small group, or employer as defined in KRS 304.17A-0954, with similar case characteristics for health benefit plans with the same or similar coverage;
- (4) "Basic health benefit plan" means any plan offered to an individual, a small group, or employer-organized association that limits coverage to physician, pharmacy, home health, preventive, emergency, and inpatient and outpatient hospital services in accordance with the requirements of this subtitle. If vision or eye services are offered, these services may be provided by an ophthalmologist or optometrist. Chiropractic benefits may be offered by providers licensed pursuant to KRS Chapter 312;
- (5) "Bona fide association" means an entity as defined in 42 U.S.C. sec. 300gg-91(d)(3);
- (6) "Church plan" means a church plan as defined in 29 U.S.C. sec. 1002(33);
- (7) "COBRA" means any of the following:
 - (a) 26 U.S.C. sec. 4980B other than subsection (f)(1) as it relates to pediatric vaccines;
 - (b) The Employee Retirement Income Security Act of 1974 (29 U.S.C. sec. 1161 et seq. other than sec. 1169); or
 - (c) 42 U.S.C. sec. 300bb;
- (8) (a) "Creditable coverage" means, with respect to an individual, coverage of the individual under any of the following:
 1. A group health plan;
 2. Health insurance coverage;
 3. Part A or Part B of Title XVIII of the Social Security Act;
 4. Title XIX of the Social Security Act, other than coverage consisting solely of benefits under section 1928;
 5. Chapter 55 of Title 10, United States Code, including medical and dental care for members and certain former members of the uniformed services,

and for their dependents; for purposes of Chapter 55 of Title 10, United States Code, "uniformed services" means the Armed Forces and the Commissioned Corps of the National Oceanic and Atmospheric Administration and of the Public Health Service;

6. A medical care program of the Indian Health Service or of a tribal organization;
 7. A state health benefits risk pool;
 8. A health plan offered under Chapter 89 of Title 5, United States Code, such as the Federal Employees Health Benefit Program;
 9. A public health plan as established or maintained by a state, the United States government, a foreign country, or any political subdivision of a state, the United States government, or a foreign country that provides health coverage to individuals who are enrolled in the plan;
 10. A health benefit plan under section 5(e) of the Peace Corps Act (22 U.S.C. sec. 2504(e)); or
 11. Title XXI of the Social Security Act, such as the State Children's Health Insurance Program.
- (b) This term does not include coverage consisting solely of coverage of excepted benefits as defined in subsection (14) of this section;
- (9) "Dependent" means any individual who is or may become eligible for coverage under the terms of an individual or group health benefit plan because of a relationship to a participant;
- (10) "Employee benefit plan" means an employee welfare benefit plan or an employee pension benefit plan or a plan which is both an employee welfare benefit plan and an employee pension benefit plan as defined by ERISA;
- (11) "Eligible individual" means an individual:
- (a) For whom, as of the date on which the individual seeks coverage, the aggregate of the periods of creditable coverage is eighteen (18) or more months and whose most recent prior creditable coverage was under a group health plan, governmental plan, or church plan. A period of creditable coverage under this paragraph shall not be counted if, after that period, there was a sixty-three (63) day period of time, excluding any waiting or affiliation period, during all of which the individual was not covered under any creditable coverage;
 - (b) Who is not eligible for coverage under a group health plan, Part A or Part B of Title XVIII of the Social Security Act (42 U.S.C. secs. 1395j et seq.), or a state plan under Title XIX of the Social Security Act (42 U.S.C. secs. 1396 et seq.) and does not have other health insurance coverage;
 - (c) With respect to whom the most recent coverage within the coverage period described in paragraph (a) of this subsection was not terminated based on a factor described in KRS 304.17A-240(2)(a), (b), and (c);

- (d) If the individual had been offered the option of continuation coverage under a COBRA continuation provision or under KRS 304.18-110, who elected the coverage; and
 - (e) Who, if the individual elected the continuation coverage, has exhausted the continuation coverage under the provision or program;
- (12) "Employer-organized association" means any of the following:
- (a) Any entity that was qualified by the commissioner as an eligible association prior to April 10, 1998, and that has actively marketed a health insurance program to its members since September 8, 1996, and which is not insurer-controlled;
 - (b) Any entity organized under KRS 247.240 to 247.370 that has actively marketed health insurance to its members and that is not insurer-controlled; or
 - (c) Any entity that is a bona fide association as defined in 42 U.S.C. sec. 300gg-91(d)(3), whose members consist principally of employers, and for which the entity's health insurance decisions are made by a board or committee, the majority of which are representatives of employer members of the entity who obtain group health insurance coverage through the entity or through a trust or other mechanism established by the entity, and whose health insurance decisions are reflected in written minutes or other written documentation.

Except as provided in KRS 304.17A-200, 304.17A.210, and 304.17A-220, no employer-organized association shall be treated as an association, small group, or large group under this subtitle;

- (13) "Employer-organized association health insurance plan" means any health insurance plan, policy, or contract issued to an employer-organized association, or to a trust established by one (1) or more employer-organized associations, or providing coverage solely for the employees, retired employees, directors and their spouses and dependents of the members of one (1) or more employer-organized associations;
- (14) "Excepted benefits" means benefits under one (1) or more, or any combination thereof, of the following:
- (a) Coverage only for accident, including accidental death and dismemberment, or disability income insurance, or any combination thereof;
 - (b) Coverage issued as a supplement to liability insurance;
 - (c) Liability insurance, including general liability insurance and automobile liability insurance;
 - (d) Workers' compensation or similar insurance;
 - (e) Automobile medical payment insurance;
 - (f) Credit-only insurance;
 - (g) Coverage for on-site medical clinics;
 - (h) Other similar insurance coverage, specified in administrative regulations, under which benefits for medical care are secondary or incidental to other insurance benefits;

- (i) Limited scope dental or vision benefits;
 - (j) Benefits for long-term care, nursing home care, home health care, community-based care, or any combination thereof;
 - (k) Such other similar, limited benefits as are specified in administrative regulations;
 - (l) Coverage only for a specified disease or illness;
 - (m) Hospital indemnity or other fixed indemnity insurance;
 - (n) Benefits offered as Medicare supplemental health insurance, as defined under section 1882(g)(1) of the Social Security Act;
 - (o) Coverage supplemental to the coverage provided under Chapter 55 of Title 10, United States Code;
 - (p) Coverage similar to that in paragraphs (n) and (o) of this subsection that is supplemental to coverage under a group health plan; and
 - (q) Health flexible spending arrangements;
- (15) "Governmental plan" means a governmental plan as defined in 29 U.S.C. sec. 1002(32);
- (16) "Group health plan" means a plan, including a self-insured plan, of or contributed to by an employer, including a self-employed person, or employee organization, to provide health care directly or otherwise to the employees, former employees, the employer, or others associated or formerly associated with the employer in a business relationship, or their families;
- (17) "Guaranteed acceptance program participating insurer" means an insurer that is required to or has agreed to offer health benefit plans in the individual market to guaranteed acceptance program qualified individuals under KRS 304.17A-400 to 304.17A-480;
- (18) "Guaranteed acceptance program plan" means a health benefit plan in the individual market issued by an insurer that provides health benefits to a guaranteed acceptance program qualified individual and is eligible for assessment and refunds under the guaranteed acceptance program under KRS 304.17A-400 to 304.17A-480;
- (19) "Guaranteed acceptance program" means the Kentucky Guaranteed Acceptance Program established and operated under KRS 304.17A-400 to 304.17A-480;
- (20) "Guaranteed acceptance program qualified individual" means an individual who, on or before December 31, 2000:
- (a) Is not an eligible individual;
 - (b) Is not eligible for or covered by other health benefit plan coverage or who is a spouse or a dependent of an individual who:
 - 1. Waived coverage under KRS 304.17A-210(2); or
 - 2. Did not elect family coverage that was available through the association or group market;
 - (c) Within the previous three (3) years has been diagnosed with or treated for a high-cost condition or has had benefits paid under a health benefit plan for a

high-cost condition, or is a high risk individual as defined by the underwriting criteria applied by an insurer under the alternative underwriting mechanism established in KRS 304.17A-430(3);

- (d) Has been a resident of Kentucky for at least twelve (12) months immediately preceding the effective date of the policy; and
 - (e) Has not had his or her most recent coverage under any health benefit plan terminated or nonrenewed because of any of the following:
 - 1. The individual failed to pay premiums or contributions in accordance with the terms of the plan or the insurer had not received timely premium payments;
 - 2. The individual performed an act or practice that constitutes fraud or made an intentional misrepresentation of material fact under the terms of the coverage; or
 - 3. The individual engaged in intentional and abusive noncompliance with health benefit plan provisions;
- (21) "Guaranteed acceptance plan supporting insurer" means either an insurer, on or before December 31, 2000, that is not a guaranteed acceptance plan participating insurer or is a stop loss carrier, on or before December 31, 2000, provided that a guaranteed acceptance plan supporting insurer shall not include an employer-sponsored self-insured health benefit plan exempted by ERISA;
- (22) "Health benefit plan" means any hospital or medical expense policy or certificate; nonprofit hospital, medical-surgical, and health service corporation contract or certificate; provider sponsored integrated health delivery network; a self-insured plan or a plan provided by a multiple employer welfare arrangement, to the extent permitted by ERISA; health maintenance organization contract; or any health benefit plan that affects the rights of a Kentucky insured and bears a reasonable relation to Kentucky, whether delivered or issued for delivery in Kentucky, and does not include policies covering only accident, credit, dental, disability income, fixed indemnity medical expense reimbursement policy, long-term care, Medicare supplement, specified disease, vision care, coverage issued as a supplement to liability insurance, insurance arising out of a workers' compensation or similar law, automobile medical-payment insurance, insurance under which benefits are payable with or without regard to fault and that is statutorily required to be contained in any liability insurance policy or equivalent self-insurance, short-term coverage, student health insurance offered by a Kentucky-licensed insurer under written contract with a university or college whose students it proposes to insure, medical expense reimbursement policies specifically designed to fill gaps in primary coverage, coinsurance, or deductibles and provided under a separate policy, certificate, or contract, or coverage supplemental to the coverage provided under Chapter 55 of Title 10, United States Code, or limited health service benefit plans;
- (23) "Health care provider" or "provider" means any facility or service required to be licensed pursuant to KRS Chapter 216B, pharmacist as defined pursuant to KRS Chapter 315, and any of the following independent practicing practitioners:

- (a) Physicians, osteopaths, and podiatrists licensed under KRS Chapter 311;
 - (b) Chiropractors licensed under KRS Chapter 312;
 - (c) Dentists licensed under KRS Chapter 313;
 - (d) Optometrists licensed under KRS Chapter 320;
 - (e) Physician assistants regulated under KRS Chapter 311;
 - (f) Advanced practice registered nurses licensed under KRS Chapter 314; and
 - (g) Other health care practitioners as determined by the department by administrative regulations promulgated under KRS Chapter 13A;
- (24) (a) "High-cost condition," pursuant to the Kentucky Guaranteed Acceptance Program, means a covered condition in an individual policy as listed in paragraph (c) of this subsection or as added by the commissioner in accordance with KRS 304.17A-280, but only to the extent that the condition exceeds the numerical score or rating established pursuant to uniform underwriting standards prescribed by the commissioner under paragraph (b) of this subsection that account for the severity of the condition and the cost associated with treating that condition.
- (b) The commissioner by administrative regulation shall establish uniform underwriting standards and a score or rating above which a condition is considered to be high-cost by using:
- 1. Codes in the most recent version of the "International Classification of Diseases" that correspond to the medical conditions in paragraph (c) of this subsection and the costs for administering treatment for the conditions represented by those codes; and
 - 2. The most recent version of the questionnaire incorporated in a national underwriting guide generally accepted in the insurance industry as designated by the commissioner, the scoring scale for which shall be established by the commissioner.
- (c) The diagnosed medical conditions are: acquired immune deficiency syndrome (AIDS), angina pectoris, ascites, chemical dependency cirrhosis of the liver, coronary insufficiency, coronary occlusion, cystic fibrosis, Friedreich's ataxia, hemophilia, Hodgkin's disease, Huntington chorea, juvenile diabetes, leukemia, metastatic cancer, motor or sensory aphasia, multiple sclerosis, muscular dystrophy, myasthenia gravis, myotonia, open heart surgery, Parkinson's disease, polycystic kidney, psychotic disorders, quadriplegia, stroke, syringomyelia, and Wilson's disease;
- (25) "Index rate" means, for each class of business as to a rating period, the arithmetic average of the applicable base premium rate and the corresponding highest premium rate;
- (26) "Individual market" means the market for the health insurance coverage offered to individuals other than in connection with a group health plan. The individual market includes an association plan that is not employer related, issued to individuals on an individually underwritten basis, other than an employer-organized association or a bona fide association, that has been organized and is maintained in good faith for

purposes other than obtaining insurance for its members and that has a constitution and bylaws;

- (27) "Insurer" means any insurance company; health maintenance organization; self-insurer or multiple employer welfare arrangement not exempt from state regulation by ERISA; provider-sponsored integrated health delivery network; self-insured employer-organized association, or nonprofit hospital, medical-surgical, dental, or health service corporation authorized to transact health insurance business in Kentucky;
- (28) "Insurer-controlled" means that the commissioner has found, in an administrative hearing called specifically for that purpose, that an insurer has or had a substantial involvement in the organization or day-to-day operation of the entity for the principal purpose of creating a device, arrangement, or scheme by which the insurer segments employer groups according to their actual or anticipated health status or actual or projected health insurance premiums;
- (29) "Kentucky Access" has the meaning provided in KRS 304.17B-001(17);
- (30) "Large group" means:
 - (a) An employer with fifty-one (51) or more employees; or
 - (b) An affiliated group with fifty-one (51) or more eligible members;
- (31) "Managed care" means systems or techniques generally used by third-party payors or their agents to affect access to and control payment for health care services and that integrate the financing and delivery of appropriate health care services to covered persons by arrangements with participating providers who are selected to participate on the basis of explicit standards for furnishing a comprehensive set of health care services and financial incentives for covered persons using the participating providers and procedures provided for in the plan;
- (32) "Market segment" means the portion of the market covering one (1) of the following:
 - (a) Individual;
 - (b) Small group;
 - (c) Large group; or
 - (d) Association;
- (33) "Participant" means any employee or former employee of an employer, or any member or former member of an employee organization, who is or may become eligible to receive a benefit of any type from an employee benefit plan which covers employees of the employer or members of the organization, or whose beneficiaries may be eligible to receive any benefit as established in Section 3(7) of ERISA;
- (34) "Preventive services" means medical services for the early detection of disease that are associated with substantial reduction in morbidity and mortality;
- (35) "Provider network" means an affiliated group of varied health care providers that is established to provide a continuum of health care services to individuals;

- (36) "Provider-sponsored integrated health delivery network" means any provider-sponsored integrated health delivery network created and qualified under KRS 304.17A-300 and KRS 304.17A-310;
- (37) "Purchaser" means an individual, organization, employer, association, or the Commonwealth that makes health benefit purchasing decisions on behalf of a group of individuals;
- (38) "Rating period" means the calendar period for which premium rates are in effect. A rating period shall not be required to be a calendar year;
- (39) "Restricted provider network" means a health benefit plan that conditions the payment of benefits, in whole or in part, on the use of the providers that have entered into a contractual arrangement with the insurer to provide health care services to covered individuals;
- (40) "Self-insured plan" means a group health insurance plan in which the sponsoring organization assumes the financial risk of paying for covered services provided to its enrollees;
- (41) "Small employer" means, in connection with a group health plan with respect to a calendar year and a plan year, an employer who employed an average of at least two (2) but not more than fifty (50) employees on business days during the preceding calendar year and who employs at least two (2) employees on the first day of the plan year;
- (42) "Small group" means:
 - (a) A small employer with two (2) to fifty (50) employees; or
 - (b) An affiliated group or association with two (2) to fifty (50) eligible members;
- (43) "Standard benefit plan" means the plan identified in KRS 304.17A-250; and
- (44) "Telehealth" has the meaning provided in KRS 311.550.

Effective: July 15, 2010

History: Amended 2010 Ky. Acts ch. 24, sec. 1209, effective July 15, 2010; and ch. 85, sec. 46, effective July 15, 2010. -- Amended 2006 Ky. Acts ch. 253, sec. 1, effective July 12, 2006. -- Amended 2005 Ky. Acts ch. 144, sec. 7, effective June 20, 2005. -- Amended 2002 Ky. Acts ch. 351, sec. 1, effective July 15, 2002. -- Amended 2000 Ky. Acts ch. 376, sec. 6, effective July 15, 2001; ch. 476, sec. 17, effective July 14, 2000; and ch. 521, sec. 1, effective July 14, 2000. -- Created 1998 Ky. Acts ch. 496, sec. 1, effective April 10, 1998.

Legislative Research Commission Note (7/15/2010). This section was amended by 2010 Ky. Acts chs. 24 and 85, which do not appear to be in conflict and have been codified together.

EXHIBIT 2

Definition: Insurance Purchasing Outlet

KRS 304.17A-750

304.17A-750 Definitions for KRS 304.17A-750 to 304.17A-770 and 304.47-020.

As used in KRS 304.17A-750 to 304.17A-770 and 304.47-020, unless the context requires otherwise:

- (1) "Eligible employee" means any full time or part time employee who is actively engaged in the conduct of business of the employer, who has satisfied any employer waiting period requirements, and who has been given a voucher by the employer to purchase a health benefit plan;
- (2) "Eligible person" means an employer, eligible employee, self-employed person, unemployed person, or retiree who is not eligible for Medicare;
- (3) "Employer" means any corporation, partnership, sole proprietorship, or other business entity doing business in Kentucky that provides a voucher for a health benefit plan to its eligible employees to purchase a health benefit plan;
- (4) "Insurance purchasing outlet" means a business entity licensed as an administrator in accordance with Subtitle 9 of Chapter 304, which collects premiums and vouchers from or on behalf of health purchasing outlet members, and which is issued a certificate of registration in accordance with KRS 304.17A-750 to 304.17A-770 and 304.47-020;
- (5) "Insurance purchasing outlet member" means an eligible person, including a dependent of an eligible person, who is enrolled in a health benefit plan offered through an insurance purchasing outlet by a participating insurer;
- (6) "Participating insurer" means an authorized insurer that contracts with an insurance purchasing outlet to provide coverage to insurance purchasing outlet members under a health benefit plan; and
- (7) "Voucher" means an instrument that is issued to an eligible employee by an employer to purchase a health benefit plan.

Effective: July 15, 2002

History: Created 2002 Ky. Acts ch. 207, sec. 1, effective July 15, 2002.

EXHIBIT 3

Health Benefit Plan Rate Filing Requirements

KRS 304.17-095

**304.17A-095 Insurer issuing health benefit plan must file rates and charges --
Commissioner's approval -- Policy forms -- Administrative regulations --
Hearing.**

- (1) (a) Notwithstanding any other provisions of this chapter to the contrary, each insurer that issues, delivers, or renews any health benefit plan to any market segment other than a large group shall, before use thereof, file with the commissioner its rates, fees, dues, and other charges paid by insureds, members, enrollees, or subscribers. The insurer shall also submit a copy of the filing to the Attorney General and shall comply with the provisions of this section. The insurer shall adhere to its rates, fees, dues, and other charges as filed with the commissioner. The insurer shall submit a new filing to reflect any material change to the previously filed and approved rate filing. For all other changes, the insurer shall submit an amendment to a previously approved rate filing.
- (b) Notwithstanding any other provisions of this chapter to the contrary, each insurer that issues, delivers, or renews any health benefit plan to a large group as defined in KRS 304.17A-005 shall file the rating methodology with the commissioner and shall submit a copy of the filing to the Attorney General.
- (2) (a) A rate filing under this section may be used by the insurer on and after the date of filing with the commissioner prior to approval by the commissioner. A rate filing shall be approved or disapproved by the commissioner within sixty (60) days after the date of filing. Should sixty (60) days expire after the commissioner receives the filing before approval or disapproval of the filing, the filing shall be deemed approved.
- (b) In the circumstances of a filing that has been deemed approved or has been disapproved under paragraph (a) of this subsection, the commissioner shall have the authority to order a retroactive reduction of rates to a reasonable rate if the commissioner subsequently determines that the filing contained misrepresentations or was based on fraudulent information, and if after applying the factors in subsection (3) of this section the commissioner determines that the rates were unreasonable. If the commissioner seeks to order a retroactive reduction of rates and more than one (1) year has passed since the date of the filing, the commissioner shall consider the reasonableness of the rate over the entire period during which the filing has been in effect.
- (3) In approving or disapproving a filing under this section, the commissioner shall consider:
 - (a) Whether the benefits provided are reasonable in relation to the premium or fee charged;
 - (b) Whether the fees paid to providers for the covered services are reasonable in relation to the premium or fee charged;
 - (c) Previous premium rates or fees for the policies or contracts to which the filing applies;

- (d) The effect of the rate or rate increase on policyholders, enrollees, and subscribers;
 - (e) Whether the rates, fees, dues, or other charges are excessive, inadequate, or unfairly discriminatory;
 - (f) The effect on the rates of any assessment made under KRS 304.17B-021; and
 - (g) Other factors as deemed relevant by the commissioner.
- (4) The rates for each policyholder shall be guaranteed for twelve (12) months at the rate in effect on the date of issue or date of renewal.
- (5) At any time the commissioner, after a public hearing for which at least thirty (30) days' notice has been given, may withdraw approval of rates or fees previously approved under this section and may order an appropriate refund or future premium credit to policyholders, enrollees, and subscribers if the commissioner determines that the rates or fees previously approved are in violation of this chapter.
- (6) Notwithstanding subsection (2) of this section, premium rates may be used upon filing with the department of a policy form not previously used if the filing is accompanied by the policy form filing and a minimum loss ratio guarantee. Insurers may use the filing procedure specified in this subsection only if the affected policy forms disclose the benefit of a minimum loss ratio guarantee. An insurer may not elect to use the filing procedure in this subsection for a policy form that does not contain the minimum loss ratio guarantee. If an insurer elects to use the filing procedure in this subsection for a policy form or forms, the insurer shall not use a filing of premium rates that does not provide a minimum loss ratio guarantee for that policy form or forms.
- (a) The minimum loss ratio shall be in writing and shall contain at least the following:
- 1. An actuarial memorandum specifying the expected loss ratio that complies with the standards as set forth in this subsection;
 - 2. A statement certifying that all rates, fees, dues, and other charges are not excessive, inadequate, or unfairly discriminatory;
 - 3. Detailed experience information concerning the policy forms;
 - 4. A step-by-step description of the process used to develop the experience loss ratio, including demonstration with supporting data;
 - 5. A guarantee of a specific lifetime minimum loss ratio, that shall be greater than or equal to the following, taking into consideration adjustments for duration as set forth in administrative regulations promulgated by the commissioner:
 - a. Sixty-five percent (65%) for policies issued to individuals or for certificates issued to members of an association that does not offer coverage to small employers;
 - b. Seventy percent (70%) for policies issued to small groups of two (2) to ten (10) employees or for certificates issued to members of an association that offers coverage to small employers; and

- c. Seventy-five percent (75%) for policies issued to small groups of eleven (11) to fifty (50) employees;
 - 6. A guarantee that the actual Kentucky loss ratio for the calendar year in which the new rates take effect, and for each year thereafter until new rates are filed, will meet or exceed the minimum loss ratio standards referred to in subparagraph 5. of this paragraph, adjusted for duration;
 - 7. A guarantee that the actual Kentucky lifetime loss ratio shall meet or exceed the minimum loss ratio standards referred to in subparagraph 5. of this paragraph; and
 - 8. If the annual earned premium volume in Kentucky under the particular policy form is less than two million five hundred thousand dollars (\$2,500,000), the minimum loss ratio guarantee shall be based partially on the Kentucky earned premium and other credibility factors as specified by the commissioner.
- (b) The actual Kentucky minimum loss ratio results for each year at issue shall be independently audited at the insurer's expense and the audit shall be filed with the commissioner not later than one hundred twenty (120) days after the end of the year at issue. The audit shall demonstrate the calculation of the actual Kentucky loss ratio in a manner prescribed as set forth in administrative regulations promulgated by the commissioner.
 - (c) The insurer shall refund premiums in the amount necessary to bring the actual loss ratio up to the guaranteed minimum loss ratio.
 - (d) A Kentucky policyholder affected by the guaranteed minimum loss ratio shall receive a portion of the premium refund relative to the premium paid by the policyholder. The refund shall be made to all Kentucky policyholders insured under the applicable policy form during the year at issue if the refund would equal ten dollars (\$10) or more per policy. The refund shall include statutory interest from July 1 of the year at issue until the date of payment. Payment shall be made not later than one hundred eighty (180) days after the end of the year at issue.
 - (e) Premium refunds of less than ten dollars (\$10) per insured shall be aggregated by the insurer and paid to the Kentucky State Treasury.
 - (f) None of the provisions of subsections (2) and (3) of this section shall apply if premium rates are filed with the department and accompanied by a minimum loss ratio guarantee that meets the requirements of this subsection. Such filings shall be deemed approved. Each insurer paying a risk assessment under KRS 304.17B-021 may include the amount of the assessment in establishing premium rates filed with the commissioner under this section. The insurer shall identify any assessment allocated.
 - (g) The policy form filing of an insurer using the filing procedure with a minimum loss ratio guarantee will disclose to the enrollee, member, or subscriber as prescribed by the commissioner an explanation of the lifetime

loss ratio guarantee, and the actual loss ratio, and any adjustments for duration.

- (h) The insurer who elects to use the filing procedure with a minimum loss ratio guarantee shall notify all policyholders of the refund calculation, the result of the refund calculation, the percent of premium on an aggregate basis to be refunded if any, any amount of the refund attributed to the payment of interests, and an explanation of amounts less than ten dollars (\$10).
 - (i) Notwithstanding the provisions of this subsection, an insurer may amend the policy forms used before March 31, 2005, or may amend the minimum loss ratio guarantee on policy forms filed with the department and used by the insurer prior to March 31, 2005, to provide for a minimum loss ratio guarantee allowed under this subsection for policies issued, delivered, or renewed on or after March 31, 2005.
- (7) The commissioner may by administrative regulation prescribe any additional information related to rates, fees, dues, and other charges as they relate to the factors set out in subsection (3) of this section that he or she deems necessary and relevant to be included in the filings and the form of the filings required by this section. When determining a loss ratio for the purposes of loss ratio guarantee, the insurer shall divide the total of the claims incurred, plus preferred provider organization expenses, case management and utilization review expenses, plus reinsurance premiums less reinsurance recoveries by the premiums earned less state and local premium taxes less other assessments. For purposes of determining the loss ratio for any loss ratio guarantee pursuant to this section, the commissioner may examine the insurer's expenses for preferred provider organization, case management, utilization review, and reinsurance used by the insurer in calculating the loss ratio guarantee for reasonableness. Only those expenses found to be reasonable by the commissioner may be used by the insurer for determining the loss ratio for purposes of any loss ratio guarantee.
- (8) (a) The commissioner shall hold a hearing upon written request by the Attorney General. The written request shall be based upon one (1) or more of the reasons set out in subsection (3) of this section and shall state the applicable reasons.
- (b) An insurer may request a hearing, pursuant to KRS 304.2-310, with regard to any action taken by the commissioner under this section as to the disapproval of rates or an order of a retroactive reduction of rates.
- (c) The hearing shall be a public hearing conducted in accordance with KRS 304.2-310.

Effective: July 15, 2010

History: Amended 2010 Ky. Acts ch. 24, sec. 1212, effective July 15, 2010. -- Amended 2005 Ky. Acts ch. 183, sec. 2, effective March 31, 2005. -- Amended 2004 Ky. Acts ch. 59, sec. 3, effective July 13, 2004. -- Amended 2002 Ky. Acts ch. 351, sec. 3, effective July 15, 2002. -- Amended 2000 Ky. Acts ch. 476, sec. 25, effective January 1, 2001; and 2000 Ky. Acts ch. 521, sec. 14, effective July 14, 2000. -- Amended 1998 Ky. Acts ch. 496, sec. 9, effective April 10, 1998. -- Created 1996 Ky. Acts ch. 371, sec. 16, effective July 15, 1996.

EXHIBIT 4

Premium Rate Guidelines for Individual, Small
Group, and Association Plans

KRS 304.17A-0952

304.17A-0952 Premium rate guidelines for individual, small group, and association plans.

Premium rates for a health benefit plan issued or renewed to an individual, a small group, or an association on or after April 10, 1998, shall be subject to the following provisions:

- (1) The premium rates charged during a rating period to an individual with similar case characteristics for the same coverage, or the rates that could be charged to that individual under the rating system for that class of business, shall not vary from the index rate by more than thirty-five percent (35%) of the index rate upon any policy issuance or renewal, on or after January 1, 2003.
- (2) Notwithstanding the thirty-five percent (35%) variance limitation in subsection (1) of this section, insurers offering an individual health benefit plan that is state-elected under sec. 35(e)(1)F of the Trade Act of 2002, Pub. L. No. 107-210 sec. 201, may vary from the index rate by more than thirty-five percent (35%) for individuals who are eligible for the health coverage tax credit under the following conditions:
 - (a) The insurer certifies that the individual does not meet the insurer's underwriting guidelines for issuance of an individual policy;
 - (b) The policy meets the requirements for state-elected coverage under the Trade Act of 2002; and
 - (c) The premium rate is actuarially justified and has been approved by the Department of Insurance pursuant to KRS 304.17A-095.
- (3) The percentage increase in the premium rate charged to an individual for a new rating period shall not exceed the sum of the following:
 - (a) The percentage change in the new business premium rate measured from the first day of the prior rating period to the first day of the new rating period. In the case of a class of business for which the insurer is not issuing new policies, the insurer shall use the percentage change in the base premium rate;
 - (b) Any adjustment, not to exceed twenty percent (20%) annually and adjusted pro rata for rating periods of less than one (1) year, due to the claim experience, mental and physical condition, including medical condition, medical history, and health service utilization, or duration of coverage of the individual and dependents as determined from the insurer's rate manual for the class of business; and
 - (c) Any adjustment due to change in coverage or change in the case characteristics of the individual as determined from the insurer's rate manual for the class of business.
- (4) The premium rates charged during a rating period to a small group or to an association member with similar case characteristics for the same coverage, or the rates that could be charged to that small group or that association member under the rating system for that class of business, shall not vary from the index rate by more than fifty percent (50%) of the index rate.

- (5) The percentage increase in the premium rate charged to a small group or to an association member for a new rating period shall not exceed the sum of the following:
- (a) The percentage change in the new business premium rate measured from the first day of the prior rating period to the first day of the new rating period. In the case of a class of business for which the insurer is not issuing new policies, the insurer shall use the percentage change in the base premium rate;
 - (b) Any adjustment, not to exceed twenty percent (20%) annually and adjusted pro rata for rating periods of less than one (1) year, due to the claims experience, mental and physical condition, including medical condition, medical history, and health service utilization, or duration of coverage of the employee, association member, or dependents as determined from the insurer's rate manual for the class of business; and
 - (c) Any adjustment due to change in coverage or change in the case characteristics of the small group or association member as determined from the insurer's rate manual for the class of business.
- (6) In utilizing case characteristics, the ratio of the highest rate factor to the lowest rate factor within a class of business shall not exceed five to one (5:1). For purpose of this limitation, case characteristics include age, gender, occupation or industry, and geographic area.
- (7) Adjustments in rates for claims experience, mental and physical condition, including medical condition, medical history, and health service utilization, health status, and duration of coverage shall not be charged to an individual group member or the member's dependents. Any adjustment shall be applied uniformly to the rates charged for all individuals and dependents of the small group.
- (8) The commissioner may approve establishment of additional classes of business upon application to the commissioner and a finding by the commissioner that the additional class would enhance the efficiency and fairness for the applicable market segment.
- (a) The index rate for a rating period for any class of business shall not exceed the index rate for any other class of business in that market segment by more than ten percent (10%).
 - (b) An insurer may establish a separate class of business only to reflect substantial differences in expected claims experience or administrative cost related to the following reasons:
 - 1. The insurer uses more than one (1) type of system for the marketing and sale of the health benefit plans;
 - 2. The insurer has acquired a class of business from another insurer; or
 - 3. The insurer is offering a state-elected plan under the provisions of the Trade Act of 2002, Pub. L. No. 107-210 sec. 201.
 - (c) Notwithstanding any other provision of this subsection, beginning January 1, 2001, a GAP participating insurer may establish a separate class of business for the purpose of separating guaranteed acceptance program qualified

individuals from other individuals enrolled in their plan prior to January 1, 2001. The index rate for the separate class created under this paragraph shall be established taking into consideration expected claims experience and administrative costs of the new class of business and the previous class of business.

- (9) For the purpose of this section, a health benefit plan that utilizes a restricted provider network shall not be considered similar coverage to a health benefit plan that does not utilize a restricted provider network if utilization of the restricted provider network results in substantial differences in claims costs.
- (10) Notwithstanding any other provision of this section, an insurer shall not be required to utilize the experience of those individuals with high-cost conditions who enrolled in its plans between July 15, 1995, and April 10, 1998, to develop the insurer's index rate for its individual policies.
- (11) Nothing in this section shall be construed to prevent an insurer from offering incentives to participate in a program of disease prevention or health improvement.

Effective: July 15, 2010

History: Amended 2010 Ky. Acts ch. 24, sec. 1213, effective July 15, 2010. -- Amended 2004 Ky. Acts ch. 168, sec. 1, effective April 21, 2004. -- Amended 2002 Ky. Acts ch. 351, sec. 15, effective July 15, 2002. -- Amended 2000 Ky. Acts ch. 476, sec. 19, effective January 1, 2001. -- Created 1998 Ky. Acts ch. 496, sec. 10, effective April 10, 1998.

EXHIBIT 5

Premium Rate Guidelines for
Employer-Organized Association Plans
KRS 304.17A-0954

304.17A-0954 Definitions for section -- Premium rate guidelines for employer-organized association plans.

- (1) For purposes of this section:
 - (a) "Base premium rate" has the meaning provided in KRS 304.17A-005;
 - (b) "Employer" means a person engaged in a trade or business who has two (2) or more employees within the state in each of twenty (20) or more calendar weeks in the current or preceding calendar year;
 - (c) "Employer-organized association" means any of the following:
 1. Any entity which was qualified by the commissioner as an eligible association prior to April 10, 1998, and which has actively marketed a health insurance program to its members after September 8, 1996, and which is not insurer-controlled;
 2. An entity organized under KRS 247.240 to 247.370 that has actively marketed health insurance to its members and which is not insurer-controlled; or
 3. Any entity which is a bona fide association as defined in 42 U.S.C. sec. 300gg-91(d)(3), whose members consist principally of employers, and for which the entity's health insurance decisions are made by a board or committee the majority of which are representatives of employer members of the entity who obtain group health insurance coverage through the entity or through a trust or other mechanism established by the entity, and whose health insurance decisions are reflected in written minutes or other written documentation;
 - (d) "Index rate" has the meaning provided in KRS 304.17A-005.
- (2) Notwithstanding any other provision of this chapter, the amount or rate of premiums for an employer-organized association health plan may be determined, subject to the restrictions of subsection (3) of this section, based upon the experience or projected experience of the employer-organized associations whose employers obtain group coverage under the plan. Without the written consent of the employer-organized association filed with the commissioner, the index rate for the employer-organized association shall be calculated solely with respect to that employer-organized association and shall not be tied to, linked to, or otherwise adversely affected by any other index rate used by the issuing insurer.
- (3) The following restrictions shall be applied in calculating the permissible amount or rate of premiums for an employer-organized health insurance plan:
 - (a) The premium rates charged during a rating period to members of the employer-organized association with similar characteristics for the same or similar coverage, or the premium rates that could be charged to a member of the employer-organized association under the rating system for that class of business, shall not vary from its own index rate by more than fifty percent (50%) of its own index rate; and

- (b) The percentage increase in the premium rate charged to an employer member of an employer-organized association for a new rating period shall not exceed the sum of the following:
1. The percentage change in the new business premium rate for the employer-organized association measured from the first day of the prior rating period to the first day of the new rating period;
 2. Any adjustment, not to exceed twenty percent (20%) annually and adjusted pro rata for rating period of less than one (1) year, due to the claims experience, mental and physical condition, including medical condition, medical history, and health service utilization, or duration of coverage of the member as determined from the insurer's rate manual; and
 3. Any adjustment due to change in coverage or change in the case characteristics of the member as determined by the insurer's rate manual.
- (4) In utilizing case characteristics, the ratio of the highest rate factor to the lowest rate factor within a class of business shall not exceed five to one (5:1). For purpose of this limitation, case characteristics include age, gender, occupation or industry, and geographic area.
- (5) For the purpose of this section, a health insurance contract that utilizes a restricted provider network shall not be considered similar coverage to a health insurance contract that does not utilize a restricted provider network if utilization of the restricted provider network results in measurable differences in claims costs.

Effective: July 15, 2010

History: Amended 2010 Ky. Acts ch. 24, sec. 1214, effective July 15, 2010. -- Amended 2002 Ky. Acts ch. 351, sec. 16, effective July 15, 2002. -- Amended 2000 Ky. Acts ch. 476, sec. 27, effective January 1, 2001. -- Created 1998 Ky. Acts ch. 496, sec. 11, effective April 10, 1998.

BUDGET NARRATIVE – CYCLE II
GRANTS TO SUPPORT STATES IN HEALTH INSURANCE RATE REVIEW
KENTUCKY DEPARTMENT OF INSURANCE

I. ESTIMATED BUDGET TOTAL

The fiscal year for the Kentucky Department of Insurance (“Department”) begins July 1 and ends June 30. The total expenditure appropriation for the Department for fiscal year 2012 is \$36,540,400. This appropriation includes money received from the tobacco settlement¹ in the amount of \$16,581,400 as well as restricted funds from the Kentucky State Treasury in the amount of \$19,959,000. With this budgeted appropriation, the Department supports twelve separate divisions and branches including the Health and Life Division. The Health and Life Division is responsible for health insurance rate review in Kentucky.

The total appropriation of state funds for fiscal year 2011 for the Health and Life Division was \$2,492,400.00. The total appropriation of state funds for fiscal year 2012 for the Health and Life Division is \$2,658,500.00. These appropriations include funding for all functions of the Health and Life Division, only one of which is the review of health insurance rates. The review of health insurance rates accounts for approximately thirty percent (30%) of the total budget for the Health and Life Division. In fiscal year 2011, the Health and Life Division spent approximately \$635,108 in state appropriated funds for the purpose of overseeing health insurance rates. This expenditure does not include new staff hired or expenditures made as a result of the Department’s receipt of \$1,000,000.00 in Cycle I rate grant funds for the period of August 9, 2010, through September 30, 2011.

By the submission of this application for Grants to Support States in Health Insurance Rate Review – Cycle II, the Department is requesting grant funds totaling \$3,225,170.00 to be

¹ Tobacco settlement money is used exclusively to fund Kentucky Access, Kentucky’s high-risk pool.

apportioned over a 3-year period beginning October 1, 2011, and ending September 30, 2014. For the first year of the Cycle II grant period, the Department requests \$1,000,000 plus an additional \$225,170 in "Workload" grant funds. For the second and third year of the grant, the Department requests \$1,000,000 for each year. A detailed breakdown of the Department's intentions regarding the allocation and expenditure of Cycle II grant funds follows. **Exhibit 1B** details the proposed Cycle II grant budget/expenditures for the 3-year period grant period in spreadsheet format.

II. BREAKDOWN AND ALLOCATION OF FUNDS

A. Personnel

With Cycle I rate review grant funds, the Department established six new staff positions and employed persons to fill these positions. The positions are a Healthcare Data Administrator, a Health Policy Specialist, an Administrative Specialist, an Information Officer, a Systems Analyst, and a Resource Management Analyst. Using Cycle II rate review grant funds, the Department intends to retain the positions established with Cycle I grant funds as well as establish one additional staff position, an internal actuary. Also, using Cycle II rate review grant funds, the Department intends to contract with an additional actuary and a translator. For the first year of the Cycle II grant, the total personnel costs are anticipated to be \$270,789.00 and are itemized as follows:

<i>Position Title and Name</i>	<i>Salary/FICA</i>	<i>Time</i>	<i>Months</i>	<i>Amount Requested</i>
Information Officer I, Jim Jordan	\$28,387.00	100%	12 Months	\$28,387.00

A new position created with Cycle I grant funds, the Information Officer educates health insurance consumers about Kentucky's on-going rate review process and future changes expected under the Patient Protection and Affordable Care Act. Primarily, the Information Officer drafts narratives for Department publications and Internet sites. The Information Officer also assists other member of the rate review team with writing and communications related to their work. Future anticipated consumer transparency

enhancements will require the services of the Information Officer to assist the Department in making consumer communications easy to understand. The Information Officer dedicates 100% of his time to rate review and grant activities.

Systems Analyst II, Bess Miller \$37,781.00 100% 12 Months \$37,781.00

A new position created with Cycle I grant funds, the Systems Analyst is devoted to analyzing and developing systems enhancements specifically for the rate review process in the Health and Life Division. The Systems Analyst coordinates any SERFF enhancements with IT enhancements of the Department. The Systems Analyst is working with other Department Analysts to develop a user-friendly Website for consumers containing rate filing information, rate review process questions and answers, and access to rate filing documentation. The Systems Analyst dedicates 100% of her time to rate review and grant activities.

Resource Management Analyst I,
Mark Moriarty \$31,224.00 100% 12 Months \$31,224.00

A new position created with Cycle I grant funds, the Resource Management Analyst monitors and tracks grant fund receipts and expenditures, manages grant resources, compiles operational reports for federal grant reporting, and performs audit functions regarding grant funding. He assesses technology, training, communications, physical space, and supply needs of the Department regarding the grant. The Resource Management Analyst facilitates acquisitions and determines priority of the grant rate review plan items. The Resource Management Analyst dedicates 100% of his time to grant activities.

Healthcare Data Administrator,
Ron Alsup \$61,911.00 100% 12 Months \$61,911.00

A new position created with Cycle I grant funds, the Healthcare Data Administrator gathers information from insurers and consumers in order to develop a baseline upon which consumer transparency initiatives and the rate review enhancements by the Department will be built. The Healthcare Data Administrator analyzes data and other information received and implements rate review enhancements. He supervises the Health Policy Specialist hired with Cycle I grant funds and is responsible for compiling, drafting, and reporting to the Department of Health and Human Services information regarding grant activities. The Healthcare Data Administrator dedicates 100% of his time to functions associated with the rate review process in Kentucky.

Health Policy Specialist II,
Nancy Phillips \$41,588.00 100% 12 Months \$41,588.00

A new position created with Cycle I grant funds, the Health Policy Specialist receives rate filings, works directly with existing staff to develop and implement new procedures and forms for a more robust rate review process, reviews and makes recommendations regarding statutory and regulatory revisions, manages consumer questions and coordinates complaint investigations regarding rating practices, and coordinates the rate review processes. The Health Policy Specialist dedicates 100% of her time to rate review and grant activities.

Administrative Specialist II,

Wendy Kurtz \$27,095.00 100% 12 Months \$27,095.00

A new position created with Cycle I grant funds, the Administrative Specialist provides administrative support to the Health Insurance Rates Branch. The Administrative Specialist performs data entry functions to capture more information from rate filings, administratively coordinates the policy rate review functions, and assists in the development of forms necessary to carry out the rate review processes. The Administrative Specialist dedicates 100% of her time to rate review and grant activities.

Internal Actuary, Vacant \$57,311.00 100% 9 Months \$42,803.00

A new employee expected to be hired using Cycle II grant funds, the Actuary will be employed full-time and, given state salary restrictions, will likely be a new-comer to the actuarial field. The Department expects that this Actuary will be dedicated to the Department's initiatives toward enhancing the established rate review process. This Actuary will provide impartial and unbiased expert advice to the Department with respect to the actuaries' role in reviewing health insurance rate filings. This advice will assist the Department in identifying data analysis techniques, data needs, data integration proposals, and insurer data request process that will enhance rate reviews. Further, this Actuary will develop working relationships with company actuaries in order to better understand rate development and interact with insurers during the rate review process. To account for negotiating the state's procurement process, funding for this position for the first year has been calculated on a 9-month term. Funding for this position for years two and three of the grant period will increase to \$57,311.00

Total: \$270,789.00
Rate Review Grant: \$270,789.00
Other Funding: \$0.00

Exhibit 1B provides a detailed itemization of Personnel expenditures for the second and third year of the Cycle II grant period. For years two and three of the grant period, the anticipated personnel costs total \$285,297.00 for each year.

B. Fringe Benefits

Kentucky's Cycle II rate grant application requests \$104,786.00 in funding to pay for fringe benefits afforded to persons hired under the Cycle I grant and the actuary that the Department intends to hire under the Cycle II grant. In Kentucky, fringe benefits are calculated as follows:

Life Insurance = \$15.00 per employee

Health Insurance = Actual cost or \$7,222.00 per employee

Retirement = Total Salary (Salary + FICA) x 19.82%

Workers' Compensation = \$120.00 per employee

<i>Position Title</i>	<i>Life Ins.</i>	<i>Health Ins.</i>	<i>Retirement</i>	<i>WC Ins.</i>	<i>Total</i>
Information Officer I	\$15.00	\$7,222.00	\$5,218.00	\$120.00	\$12,575.00
Systems Analyst II	\$15.00	\$7,060.00	\$6,944.00	\$120.00	\$14,139.00
Resource Mgmt Analyst I	\$15.00	\$6,920.00	\$5,739.00	\$120.00	\$12,794.00
Healthcare Data Admin.	\$15.00	\$9,086.00	\$11,379.00	\$120.00	\$20,600.00
Health Policy Spec. II	\$15.00	\$8,728.00	\$7,638.00	\$120.00	\$16,501.00
Administrative Spec. II	\$15.00	\$7,222.00	\$4,980.00	\$120.00	\$12,337.00
Internal Actuary	\$15.00	\$7,222.00	\$8,483.00	\$120.00	\$15,840.00

<i>Total:</i>	<i>\$104,786.00</i>
<i>Rate Review Grant:</i>	<i>\$104,786.00</i>
<i>Other Funding:</i>	<i>\$0.00</i>

Exhibit 1B provides a detailed itemization of Fringe Benefit expenditures for the second and third year of the Cycle II grant period. For years two and three of the grant period, the anticipated costs related to providing fringe benefits total \$104,786.00 for each year.

C. Equipment

The Department is requesting \$7,000.00 in Cycle II grant funds to purchase equipment necessary to allow the Department to host Webinars. The Department has agreed to mentor other states that are working to make their rate review process an effective one. Webinar capability will allow the Department to communicate with other states without incurring costs associated with travel. Further, Webinars will allow the Department to host stakeholder forums in order to gather input from insurers regarding the rate review process and changes to the process that the Department is considering. Webinar capability will also permit the Department to hold educational forums for and gather input from consumers regarding health insurance rates, consumer transparency enhancements, and the Department's rate review process. Having the ability to produce Webinars will eliminate the need for health insurance consumers to travel in order to gain rate review information from the Department.

In addition to equipment needed to install Webinar capability, the Department is requesting \$1800.00 in Cycle II grant funds to provide desktop computers for the internal actuary, a new position under Cycle II, and a translator, a new contract under Cycle II. Further, the Department requests \$1,000.00 to purchase a laptop for use by a new contract actuary that will be responsible for audit functions. The actuary will be required to travel to insurer locations to perform rate application and rate derivation audits. A laptop computer will be needed in order to access Department information electronically. Due to contractual terms, privacy considerations, ownership of work product concerns, and security issues, the Department prefers to provide contractors with laptops rather than provide contractors access to Department databases.

For the first year of the Cycle II grant, the total equipments costs are anticipated to be \$9,800.00 and are itemized as follows:

<i>Item Requested</i>	<i>How Many</i>	<i>Unit Cost</i>	<i>Amount</i>
Webinar Capability	1	\$7,000.00	\$7,000.00
Desktop Computer	2	\$900.00	\$1,800.00
Laptop	1	\$1,000.00	\$1,000.00
<i>Total:</i>			<i>\$9,800.00</i>
<i>Rate Review Grant:</i>			<i>\$9,800.00</i>
<i>Other Funding:</i>			<i>\$0.00</i>

The Department does not anticipate any expenditures for equipment from Cycle II grant funds in the second or third year of the grant period.

D. Travel Expenses

Though travel expenses are difficult to predict, the Department anticipates that rate review staff may be required to travel intermittently for the purposes of receiving training, mentoring other states seeking an effective rate review process, and attending meetings held by stakeholders, the federal government, or the states. In anticipation of these travel needs, the Department has predicted that Cycle II funds will be needed to defray the cost of in-state and out-of-state travel. The Department estimates travel costs to be as follows:

In-State Travel

3 trips x 3 persons x 150 miles x .47/mile = \$ 634.50

Out-of-State Travel

Airfare – 3 trips x 3 persons x \$450.00 = \$4,050.00

Lodging – 3 trips x 3 persons x 3 nights x \$250.00 = \$6,750.00

Per Diem - 3 trips x 3 persons x \$36.00 = \$ 972.00

Ground Transportation – 3 trips x 3 persons x \$100 = \$ 600.00

Total: \$13,006.50
Rate Review Grant: \$13,006.50
Other Funding: \$0.00

The Department anticipates that travel costs in the second and third years of the grant period will be similar to the cost allotted to travel in the first year. Consequently, the Department has budgeted \$13,006.50 in travel costs for years two and three of the grant period.

E. Contractual

The Department currently has two actuaries under contract assigned to review health insurance rates, James E. Drennan with Ingenix Consulting and Ron Burkhardt with Wakely Consulting Group. While Mr. Burkhardt concentrates on the review of rates associated with health insurance products such as long-term care and Medicare supplements, Mr. Drennan devotes 100% of his time while at the Department to the review of rates associated with health benefit plans.

The Department amended its contract with Ingenix Consulting to add John Stark as a consulting actuary to assist the Division in analyzing its rate review process and making enhancements. Mr. Stark is paid from Cycle I grant funds. The Department intends to continue consulting with Mr. Stark regarding any “actuarial-type” enhancements that need to be made to the Department’s rate review process. Consequently, the Department is requesting Cycle II funds in order to continue the contract with Mr. Stark.

Using Cycle II grant funds, the Department expects to contract with an additional actuary for the purpose of conducting rate application audits. The Department believes that insurer underwriting practices play an important role in the final rate quote given to prospective insureds. Rate application audits will allow the Department to determine if filed and approved

rates are being appropriately charged to the consumer. Further, rate application audits will allow the Department to evaluate the effect of underwriting on an insured's health insurance premium. This evaluation could potentially lead to future rate filing requirements. Lastly, rate application audits will assist the Department in collecting information that will be useful in developing criteria for certification of Qualified Health Plans to participate in the Exchange.

The new contract actuary may also be engaged to participate in multi-state examinations to review insurer rate derivation practices and loss ratio calculations. The examination findings from this type of audit will allow the Department to determine how insurance rates are derived at the insurer level. Further, the examinations will assist the Department in determining whether federal medical loss ratio standards are being met.

With Cycle II grant funds, the Department expects to contract with a Translator to develop consumer rate filing communications that are culturally and linguistically appropriate given the demographics in Kentucky. The Translator will make certain that rate filing information is available to non-English speaking residents of Kentucky. Given that rate filing information is naturally confusing, it is imperative that the Department make information available to those with language barriers in a manner they can easily understand. The Translator will provide translation services to the Department with respect to rate filing information included on the Department's Website as well as any written literature regarding health insurance rates that the Department may publish such as FAQs.

<i>Contractor Name</i>	<i>Contract Rate Total</i>	<i>Contract Travel Total</i>	<i>Total</i>
Ingenix Consulting, John Stark	\$221,544.00	\$15,000.00	\$236,544.00

Name of Consultant: John Stark – qualifications outlined in bio which is an exhibit to the grant Project Narrative. Ingenix Consulting was selected through

Kentucky's procurement process, KRS Chapter 45A. Bids are accepted after solicitation through the Request for Proposal process. Responses are reviewed and scored by the Department of Insurance. The Vendor is then chosen based on scores achieved after a review of the Department's evaluation criteria against the vendor responses.

Organizational Affiliation: Ingenix Consulting

Nature of Services to be Rendered: Through the contract with Ingenix Consulting, the Department utilizes the consulting services provided by John Stark solely for the purposes of determining how the Department's rate review process may be enhanced.

Relevance of Service to the Project: The Cycle II program for the State of Kentucky is for the purposes of enhancing the Department's review of health insurance rates. The actuary's main function is to review the Department's rate review process and federal law requirements and make rate review enhancement recommendations. Consequently, the actuary's expertise in identifying possible rate review enhancements is directly related to the program's objectives.

Number of Days of Consultation: Contract period is in effect July 1, 2010, through June 30, 2012. The contract is not limited by the number of days but rather by a maximum contract price of \$405,000.00 for fiscal year 2011 and \$135,000.00 for fiscal year 2012. Travel expenses are also limited to \$42,450.00 for fiscal year 2011 and \$14,150.00 for fiscal year 2012.

Expected Rate of Consultation: \$340.00 per hour

Method of Accountability: Actuary reports directly to Jill Mitchell, the Manager of the Health Insurance Rates Branch. Ms. Mitchell reviews all rate review determinations and the methods of review utilized by the actuaries. Ms. Mitchell also accepts, considers, and presents for review to the Department, recommendations submitted by the actuary.

New Audit Actuary			
(Vacant)	\$400,000.00	\$50,000.00	\$450,000.00

A new contract expected to be negotiated with Cycle II grant funds, the actuary will, on a part-time basis, provide rate application reviews with respect to specific insurers. These reviews will assist the Department in determining the effect that underwriting has on rates, develop a process for identifying and reporting rate information to the Exchange, develop a process for certifying qualified health plans for the Exchange, determine how to normalize rating/underwriting methodologies given insurers' underlying underwriting differences, and develop a process for auditing quotes within the Exchange. It is anticipated that the Actuary will also conduct rate derivation audits as well as review medical loss ratio

calculations. The Actuary will dedicate approximately 100% of his/her time, as limited by the contractual arrangement, to rate review and grant activities under the contract.

Translator			
(Vacant)	\$ 50,000.00	\$0	\$ 50,000.00

A new contract expected to be negotiated with Cycle II grant funds, the Translator will, on a part-time basis, make certain that consumer rate communications are culturally and linguistically appropriate given the demographics in the state of Kentucky. The Translator will also ensure that rate summaries are understandable and in the appropriate language needed to best serve Kentuckians. The Translator will be utilized on an as-needed basis and will dedicate approximately 100% of his/her time, as limited by the contractual arrangement, to rate review and grant activities under the contract.

<i>Total:</i>	<i>\$736,544.00</i>
<i>Rate Review Grant:</i>	<i>\$736,544.00</i>
<i>Other Funding:</i>	<i>\$0.00</i>

The Department anticipates that the contractual costs in the second and third years of the Cycle II grant period will decrease for the actuarial consultant and translator services. However, the Department anticipates that the actuarial costs related to rate application and derivation audits may increase slightly in the last two years of the grant period. For the second and third year of the grant period, the Department has allocated a total of \$518,187.50 to contract costs for each year.

F. Other Costs

The Department anticipates that it will incur costs associated with holding stakeholder forums for the purposes of gathering information and educating interested consumers. The anticipated costs associated with stakeholder forums have been allocated to the "Other" category of expenses. Also allocated to the "Other" cost category will be expenses associated with procuring software licenses for rate review staff, including new contracted actuarial personnel.

The Department intends to provide resources using Cycle II funds to the National Association of Insurance Commissioners ("NAIC"). These funds will be used by the NAIC to make additional enhancements to the SERFF database. These enhancements include the following:

- The SERFF system will be enhanced to assist with the collection of all parts of the industry Preliminary Justification for rate increases;
- SERFF will be modified to allow the states to enter a Summary of Rate Review and/or a State Filing Summary. This enhancement will result in the need for additional enhancements to the Department's internal database to reflect SERFF changes and capture the data;
- The Health Filing Access Interface will be enhanced to allow states to display rate filing information and to accept and process public comments on rate filings;

Again, funds to be provided to the NAIC for SERFF enhancements have been allocated to the "Other" category. A breakdown of the "Other" expenses is as follows:

<i>Type of Expenditure</i>	<i>Amount Requested</i>
IT Expenditure – SERFF Enhancements	\$20,856.00
2 Stakeholder Forums	
Facility Rental @ \$1,000.00 each	\$ 2,000.00
Refreshments @ \$375.00 each	\$ 750.00
Speaker Reimbursement @ \$500.00 each	\$ 1,000.00
Software Licenses 2 @ \$1,250	\$ 2,500.00
	<i>Total:</i> \$27,106.00
	<i>Rate Review Grant:</i> \$27,106.00
	<i>Other Funding:</i> \$0.00

While there may be a need in the second and third years of the Cycle II grant period for additional enhancements to the SERFF database, the Department anticipates that the cost of these enhancements will be less than in the first year. For this reason, the Department has allocated \$10,000.00 in grant years two and three for additional SERFF enhancements.

The Department also anticipates spending less on stakeholder forums and software licenses in years two and three of the Cycle II grant period. Consequently, the Department has allocated \$1,200.00 to defray the costs of holding stakeholder forums and \$1,000.00 for software licenses in the second and third years of the grant period.

G. Indirect Costs

The Department has allocated \$63,138.50 to indirect charges for costs associated with items such as procuring office furniture/supplies, maintaining and procuring office space, and reimbursement for telephone charges.

<i>Total:</i>	<i>\$63,138.50</i>
<i>Rate Review Grant:</i>	<i>\$63,138.50</i>
<i>Other Funding:</i>	<i>\$0.00</i>

For the second and third years of the Cycle II rate grant period, the Department has allocated \$66,523.00 per year to indirect charges. Indirect charges will be charged in accordance with the indirect cost allocation plan which is attached and labeled **Exhibit 2B**.

III. TOTAL BUDGET REQUESTED AMOUNTS

As noted above, for the first year of the Cycle II grant period, the Department is requesting \$1,000,000 plus an additional \$225,170 in "Workload" grant funds. For the second and third year of the grant period, the Department is requesting \$1,000,000 for each year. Per category, below is a summary of the Department's proposed Cycle II rate grant budget for the first, second, and third years of the grant period.

A. First Year

<i>Budget Category</i>	<i>Amount Requested</i>
Personnel	\$270,789.00
Fringe Benefits	\$104,786.00
Equipment	\$ 9,800.00
Travel	\$ 13,006.50
Contractual	\$736,544.00
Indirect Charges	\$ 63,138.50
Other	\$ 27,106.00
<i>Total First Year</i>	<i>\$1,225,170.00</i>

B. Second Year

<i>Budget Category</i>	<i>Amount Requested</i>
Personnel	\$285,297.00
Fringe Benefits	\$104,786.00
Equipment	\$ 00.00
Travel	\$ 13,006.50
Contractual	\$518,187.50
Indirect Charges	\$ 66,523.00
Other	\$ 12,200.00
<i>Total Second Year</i>	<i>\$1,000,000.00</i>

C. Third Year

<i>Budget Category</i>	<i>Amount Requested</i>
Personnel	\$285,297.00

Fringe Benefits	\$104,786.00
Equipment	\$ 00.00
Travel	\$ 13,006.50
Contractual	\$518,187.50
Indirect Charges	\$ 66,523.00
Other	\$ 12,200.00
<i>Total Third Year</i>	<i>\$1,000,000.00</i>

III. MAINTENANCE OF EFFORT

By submitting this grant application, the Department gives its assurances that grant funds will not be used as a substitute for existing funding for health insurance rate review efforts. Rather, grant funds will only be used to enhance and improve Kentucky's existing rate review processes.

EXHIBIT 1B

Cycle II Proposed Budget/Expenditures Spreadsheets
3-Year Period

GRANTS TO SUPPORT STATES IN HEALTH INSURANCE RATE REVIEW							
CYCLE II - FIRST YEAR							
Estimated Expenditure of Grant Funds							
Object Class Category	Personnel Position and Names	% of Time Budgeted for Cycle II Program	Salary	Total Months of Salary Budgeted	FICA: Total Salary x.95x.0765	Total Salary/FICA	Total
Personnel	Information Officer I, Jim Jordan	100%	\$26,483.00	12 Months	\$1,904.00	\$28,387.00	
	Systems Analyst II, Bess Miller	100%	\$35,246.00	12 Months	\$2,535.00	\$37,781.00	
	Resource Management Analyst I, Mark Moriarty	100%	\$29,129.00	12 Months	\$2,095.00	\$31,224.00	
	Healthcare Data Administrator, Ron Alsop	100%	\$57,758.00	12 Months	\$4,153.00	\$61,911.00	
	Health Policy Specialist II, Nancy Phillips	100%	\$38,770.00	12 Months	\$2,818.00	\$41,588.00	
	Administrative Specialist II, Wendy Kurtz	100%	\$25,277.00	12 Months	\$1,818.00	\$27,095.00	
	Internal Actuary, New Cycle II Position (Vacant)	100%	\$39,891.00	9 Months	\$2,912.00	\$42,803.00	\$270,789.00
Fringe Benefits	Personnel Position and Names	Life Insurance: \$15.00 per Employee	Health: Actual Cost or \$7,222 per Employee	Retirement: Total Salary x 19.82%	Workers' Compensation: \$120.00 per Employee	Cost Per Employee	
	Information Officer I, Jim Jordan	\$15.00	\$7,222.00	\$5,218.00	\$120.00	\$12,575.00	
	Systems Analyst II, Bess Miller	\$15.00	\$7,060.00	\$6,944.00	\$120.00	\$14,139.00	
	Resource Management Analyst I, Mark Moriarty	\$15.00	\$6,920.00	\$5,739.00	\$120.00	\$12,794.00	
	Healthcare Data Administrator, Ron Alsop	\$15.00	\$9,066.00	\$11,379.00	\$120.00	\$20,600.00	
	Health Policy Specialist II, Nancy Phillips	\$15.00	\$8,728.00	\$7,638.00	\$120.00	\$16,501.00	
	Administrative Specialist II, Wendy Kurtz	\$15.00	\$7,222.00	\$4,980.00	\$120.00	\$12,337.00	
Internal Actuary, New Cycle II Position (Vacant)	\$15.00	\$7,222.00	\$8,483.00	\$120.00	\$15,840.00	\$104,786.00	
Equipment	Type	Amount	Cost				
	Webinar Capability - Audio and Visual		\$7,000.00				
	Desktop computers	2	\$1,800.00				
	Laptop	1	\$1,000.00				\$9,800.00
Travel	Type of Travel	Breakdown of Travel Charges	Travel Calculation	Cost	Total Cost		
	In-state Travel - State Personnel	Mileage Reimbursement	3 trips x 3 persons x 150 miles x .47/mile	\$634.50	\$634.50		
		Airfare	3 trips x 3 persons x \$450.00	\$4,050.00			
		Lodging	3 trips x 3 persons 3 nights x \$250.00	\$6,750.00			
		Per Diem Ground	3 trips x 3 persons 3 days x \$36.00	\$972.00			
	Out-of-State Travel - State Personnel	Transportation	3 trips x 3 persons \$100.00	\$600.00	\$12,372.00		\$13,006.50
	Contractual	Type	Rate Calculation	Total Cost	Travel	Total Per Contract	
Actuary - Rate Application Audits		\$340/hr	\$400,000.00	\$50,000	\$450,000.00		
Actuary - Health Rate Review/Consulting		\$340/hr	\$221,544.00	\$15,000	\$236,544.00		
Translator		15/word	\$50,000.00	0	\$50,000.00		\$736,544.00
Indirect Charges	Indirect Cost Allocation Plan						\$63,138.50
Other	Type	Breakdown	Cost	Total Cost			
	IT Expenditure - SERFF enhancement		\$20,856.00	\$20,856.00			
	2 Stakeholder Forums	Facility Rental	\$2,000.00				
		Refreshments	\$750.00				
		Speaker					
	Software Licenses	Reimbursement	\$1,000.00	\$3,750.00			
	Two Licenses		\$2,500.00	\$2,500.00			\$27,106.00
						TOTAL	\$1,225,170.00

GRANTS TO SUPPORT STATES IN HEALTH INSURANCE RATE REVIEW							
CYCLE II - SECOND YEAR							
Estimated Expenditure of Grant Funds							
Object Class Category	Breakdown of Category Estimated Expense	% of Time Budgeted for Cycle II Program	Salary	Total Months of Salary Budgeted	FICA	Total Salary/FICA	Total's
Personnel	Information Officer I, Jim Jordan	100%	\$26,483.00	12 Months	\$1,904.00	\$28,387.00	
	Systems Analyst II, Bess Miller	100%	\$35,246.00	12 Months	\$2,535.00	\$37,781.00	
	Resource Management Analyst I, Mark Moriarty	100%	\$29,129.00	12 Months	\$2,095.00	\$31,224.00	
	Healthcare Data Administrator, Ron Aisup	100%	\$57,758.00	12 Months	\$4,153.00	\$61,911.00	
	Health Policy Specialist II, Nancy Phillips	100%	\$38,770.00	12 Months	\$2,818.00	\$41,588.00	
	Administrative Specialist II, Wendy Kurtz	100%	\$25,277.00	12 Months	\$1,818.00	\$27,095.00	
	Internal Actuary, New Cycle II Position (Vacant)	100%	\$53,428.00	12 Months	\$3,883.00	\$57,311.00	\$285,297.00
Fringe Benefits	Personnel Position and Names	Life Insurance: \$15.00 per Employee	Health: Actual Cost or \$7,222 per Employee	Retirement: Total Salary x 19.82%	Workers' Compensation: \$120.00 per Employee	Cost Per Employee	
	Information Officer I, Jim Jordan	\$15.00	\$7,222.00	\$5,218.00	\$120.00	\$12,575.00	
	Systems Analyst II, Bess Miller	\$15.00	\$7,060.00	\$6,944.00	\$120.00	\$14,139.00	
	Resource Management Analyst I, Mark Moriarty	\$15.00	\$6,920.00	\$5,739.00	\$120.00	\$12,794.00	
	Healthcare Data Administrator, Ron Aisup	\$15.00	\$9,086.00	\$11,379.00	\$120.00	\$20,600.00	
	Health Policy Specialist II, Nancy Phillips	\$15.00	\$8,728.00	\$7,638.00	\$120.00	\$16,501.00	
	Administrative Specialist II, Wendy Kurtz	\$15.00	\$7,222.00	\$4,980.00	\$120.00	\$12,337.00	
	Internal Actuary, New Cycle II Position (Vacant)	\$15.00	\$7,222.00	\$8,483.00	\$120.00	\$15,840.00	\$104,786.00
Equipment	Type	Amount	Cost				
	No equipment purchases anticipated in Year 2						\$0.00
Travel		Breakdown of Travel Charges	Travel Calculation	Cost	Total Cost		
	In-state Travel - State Personnel	Mileage Reimbursement	3 trips x 3 persons x 150 miles x .47/mile	\$634.50	\$634.50		
		Airfare	3 trips x 3 persons x \$450.00	\$4,050.00			
		Lodging	3 trips x 3 persons 3 nights x \$250.00	\$6,750.00			
		Per Diem	3 trips x 3 persons 3 days x \$36.00	\$972.00			
	Out-of-State Travel - State Personnel	Ground Transportation	3 trips x 3 persons \$100.00	\$600.00	\$12,372.00	\$13,006.50	
Contractual	Type	Rate Calculation	Total Cost	Travel	Total Per Contract		
	Actuary - Rate Application Audits	\$340/hr	\$400,000.00	\$45,000	\$445,000.00		
	Actuary - Health Rate Review/Consulting	\$340/hr	\$50,000.00	\$7,000	\$57,000.00		
	Translator	.15/word	\$16,187.50	0	\$16,187.50	\$518,187.50	
Indirect Charges	Indirect Cost Allocation Plan						\$66,523.00
Other	Type	Breakdown	Cost	Total Cost			
	IT Expenditure - SERFF enhancement 2 Stakeholder Forums:	Facility Rental	\$10,000.00	\$10,000.00			
		Refreshments	\$1,000.00				
		Speaker	\$200.00				
		Reimbursement	\$0.00	\$1,200.00			
Software Licenses	One License	\$1,000.00	\$1,000.00		\$12,200.00		
TOTAL						\$1,000,000.00	

GRANTS TO SUPPORT STATES IN HEALTH INSURANCE RATE REVIEW							
CYCLE II - THIRD YEAR							
Estimated Expenditure of Grant Funds							
Object Class Category	Breakdown of Category Estimated Expense	% of Time Budgeted for Cycle II Program	Salary	Total Months of Salary Budgeted	FICA	Total Salary/FICA	Totals
Personnel	Information Officer I, Jim Jordan	100%	\$26,483.00	12 Months	\$1,904.00	\$28,387.00	
	Systems Analyst II, Bess Miller	100%	\$35,246.00	12 Months	\$2,535.00	\$37,781.00	
	Resource Management Analyst I, Mark Moriarty	100%	\$29,129.00	12 Months	\$2,095.00	\$31,224.00	
	Healthcare Data Administrator, Ron Alsup	100%	\$57,758.00	12 Months	\$4,153.00	\$61,911.00	
	Health Policy Specialist II, Nancy Phillips	100%	\$38,770.00	12 Months	\$2,818.00	\$41,588.00	
	Administrative Specialist II, Wendy Kurtz	100%	\$25,277.00	12 Months	\$1,818.00	\$27,095.00	
	Internal Actuary, New Cycle II Position (Vacant)	100%	\$53,428.00	12 Months	\$3,883.00	\$57,311.00	\$285,297.00
Fringe Benefits	Personnel Position and Names	Life Insurance: \$15.00 per Employee	Health: Actual Cost or \$7,222 per Employee	Retirement: Total Salary x 19.82%	Workers' Compensation \$120.00 per Employee	Cost Per Employee	
	Information Officer I, Jim Jordan	\$15.00	\$7,222.00	\$5,218.00	\$120.00	\$12,575.00	
	Systems Analyst II, Bess Miller	\$15.00	\$7,060.00	\$6,944.00	\$120.00	\$14,139.00	
	Resource Management Analyst I, Mark Moriarty	\$15.00	\$6,920.00	\$5,739.00	\$120.00	\$12,794.00	
	Healthcare Data Administrator, Ron Alsup	\$15.00	\$9,086.00	\$11,379.00	\$120.00	\$20,600.00	
	Health Policy Specialist II, Nancy Phillips	\$15.00	\$8,728.00	\$7,638.00	\$120.00	\$16,501.00	
	Administrative Specialist II, Wendy Kurtz	\$15.00	\$7,222.00	\$4,980.00	\$120.00	\$12,337.00	
	Internal Actuary, New Cycle II Position (Vacant)	\$15.00	\$7,222.00	\$8,483.00	\$120.00	\$15,840.00	\$104,786.00
Equipment	Type	Amount	Cost				
	No equipment purchases anticipated in Year 3						\$0.00
Travel	Type of Travel	Breakdown of Travel Charges	Travel Calculation	Cost	Total Cost		
	In state Travel - State Personnel	Mileage Reimbursement	3 trips x 3 persons x 150 miles x .47/mile	\$634.50	\$634.50		
		Airfare	3 trips x 3 persons x \$450.00	\$4,050.00			
		Lodging	3 trips x 3 persons 3 nights x \$250.00	\$6,750.00			
		Per Diem	3 trips x 3 persons 3 days x \$38.00	\$972.00			
	Out-of-State Travel - State Personnel	Ground Transportation	3 trips x 3 persons \$100.00	\$600.00	\$12,372.00		\$13,006.50
Contractual	Type	Rate Calculation	Total Cost	Travel	Total Per Contract		
	Actuary - Rate Application Audits	\$340/hr	\$400,000.00	\$45,000	\$445,000.00		
	Actuary - Health Rate Review/Consulting	\$340/hr	\$50,000.00	\$7,000	\$57,000.00		
	Translator	.15/word	\$16,187.50	0	\$16,187.50		\$518,187.50
Indirect Charges	Indirect Cost Allocation Plan						
							\$66,523.00
Other	Type	Breakdown	Cost	Total Cost			
	IT Expenditure - SERFF enhancement	Facility Rental	\$10,000.00	\$10,000.00			
		Refreshments	\$1,000.00	\$200.00			
		Speaker	\$0.00	\$1,200.00			
		Reimbursement	\$1,000.00	\$1,000.00			
	Software Licenses	One License	\$1,000.00	\$1,000.00			\$12,200.00
TOTAL						\$1,000,000.00	

EXHIBIT 2

Definition: Insurance Purchasing Outlet

KRS 304.17A-750

304.17A-750 Definitions for KRS 304.17A-750 to 304.17A-770 and 304.47-020.

As used in KRS 304.17A-750 to 304.17A-770 and 304.47-020, unless the context requires otherwise:

- (1) "Eligible employee" means any full time or part time employee who is actively engaged in the conduct of business of the employer, who has satisfied any employer waiting period requirements, and who has been given a voucher by the employer to purchase a health benefit plan;
- (2) "Eligible person" means an employer, eligible employee, self-employed person, unemployed person, or retiree who is not eligible for Medicare;
- (3) "Employer" means any corporation, partnership, sole proprietorship, or other business entity doing business in Kentucky that provides a voucher for a health benefit plan to its eligible employees to purchase a health benefit plan;
- (4) "Insurance purchasing outlet" means a business entity licensed as an administrator in accordance with Subtitle 9 of Chapter 304, which collects premiums and vouchers from or on behalf of health purchasing outlet members, and which is issued a certificate of registration in accordance with KRS 304.17A-750 to 304.17A-770 and 304.47-020;
- (5) "Insurance purchasing outlet member" means an eligible person, including a dependent of an eligible person, who is enrolled in a health benefit plan offered through an insurance purchasing outlet by a participating insurer;
- (6) "Participating insurer" means an authorized insurer that contracts with an insurance purchasing outlet to provide coverage to insurance purchasing outlet members under a health benefit plan; and
- (7) "Voucher" means an instrument that is issued to an eligible employee by an employer to purchase a health benefit plan.

Effective: July 15, 2002

History: Created 2002 Ky. Acts ch. 207, sec. 1, effective July 15, 2002.

BUDGET NARRATIVE – CYCLE II
GRANTS TO SUPPORT STATES IN HEALTH INSURANCE RATE REVIEW
KENTUCKY DEPARTMENT OF INSURANCE

I. ESTIMATED BUDGET TOTAL

The fiscal year for the Kentucky Department of Insurance (“Department”) begins July 1 and ends June 30. The total expenditure appropriation for the Department for fiscal year 2012 is \$36,540,400. This appropriation includes money received from the tobacco settlement¹ in the amount of \$16,581,400 as well as restricted funds from the Kentucky State Treasury in the amount of \$19,959,000. With this budgeted appropriation, the Department supports twelve separate divisions and branches including the Health and Life Division. The Health and Life Division is responsible for health insurance rate review in Kentucky.

The total appropriation of state funds for fiscal year 2011 for the Health and Life Division was \$2,492,400.00. The total appropriation of state funds for fiscal year 2012 for the Health and Life Division is \$2,658,500.00. These appropriations include funding for all functions of the Health and Life Division, only one of which is the review of health insurance rates. The review of health insurance rates accounts for approximately thirty percent (30%) of the total budget for the Health and Life Division. In fiscal year 2011, the Health and Life Division spent approximately \$635,108 in state appropriated funds for the purpose of overseeing health insurance rates. This expenditure does not include new staff hired or expenditures made as a result of the Department’s receipt of \$1,000,000.00 in Cycle I rate grant funds for the period of August 9, 2010, through September 30, 2011.

By the submission of this application for Grants to Support States in Health Insurance Rate Review – Cycle II, the Department is requesting grant funds totaling \$3,225,170.00 to be

¹ Tobacco settlement money is used exclusively to fund Kentucky Access, Kentucky’s high-risk pool.

apportioned over a 3-year period beginning October 1, 2011, and ending September 30, 2014. For the first year of the Cycle II grant period, the Department requests \$1,000,000 plus an additional \$225,170 in "Workload" grant funds. For the second and third year of the grant, the Department requests \$1,000,000 for each year. A detailed breakdown of the Department's intentions regarding the allocation and expenditure of Cycle II grant funds follows. **Exhibit 1B** details the proposed Cycle II grant budget/expenditures for the 3-year period grant period in spreadsheet format.

II. BREAKDOWN AND ALLOCATION OF FUNDS

A. Personnel

With Cycle I rate review grant funds, the Department established six new staff positions and employed persons to fill these positions. The positions are a Healthcare Data Administrator, a Health Policy Specialist, an Administrative Specialist, an Information Officer, a Systems Analyst, and a Resource Management Analyst. Using Cycle II rate review grant funds, the Department intends to retain the positions established with Cycle I grant funds as well as establish one additional staff position, an internal actuary. Also, using Cycle II rate review grant funds, the Department intends to contract with an additional actuary and a translator. For the first year of the Cycle II grant, the total personnel costs are anticipated to be \$270,789.00 and are itemized as follows:

<i>Position Title and Name</i>	<i>Salary/FICA</i>	<i>Time</i>	<i>Months</i>	<i>Amount Requested</i>
Information Officer I, Jim Jordan	\$28,387.00	100%	12 Months	\$28,387.00

A new position created with Cycle I grant funds, the Information Officer educates health insurance consumers about Kentucky's on-going rate review process and future changes expected under the Patient Protection and Affordable Care Act. Primarily, the Information Officer drafts narratives for Department publications and Internet sites. The Information Officer also assists other member of the rate review team with writing and communications related to their work. Future anticipated consumer transparency

enhancements will require the services of the Information Officer to assist the Department in making consumer communications easy to understand. The Information Officer dedicates 100% of his time to rate review and grant activities.

Systems Analyst II, Bess Miller \$37,781.00 100% 12 Months \$37,781.00

A new position created with Cycle I grant funds, the Systems Analyst is devoted to analyzing and developing systems enhancements specifically for the rate review process in the Health and Life Division. The Systems Analyst coordinates any SERFF enhancements with IT enhancements of the Department. The Systems Analyst is working with other Department Analysts to develop a user-friendly Website for consumers containing rate filing information, rate review process questions and answers, and access to rate filing documentation. The Systems Analyst dedicates 100% of her time to rate review and grant activities.

Resource Management Analyst I,
Mark Moriarty \$31,224.00 100% 12 Months \$31,224.00

A new position created with Cycle I grant funds, the Resource Management Analyst monitors and tracks grant fund receipts and expenditures, manages grant resources, compiles operational reports for federal grant reporting, and performs audit functions regarding grant funding. He assesses technology, training, communications, physical space, and supply needs of the Department regarding the grant. The Resource Management Analyst facilitates acquisitions and determines priority of the grant rate review plan items. The Resource Management Analyst dedicates 100% of his time to grant activities.

Healthcare Data Administrator,
Ron Alsup \$61,911.00 100% 12 Months \$61,911.00

A new position created with Cycle I grant funds, the Healthcare Data Administrator gathers information from insurers and consumers in order to develop a baseline upon which consumer transparency initiatives and the rate review enhancements by the Department will be built. The Healthcare Data Administrator analyzes data and other information received and implements rate review enhancements. He supervises the Health Policy Specialist hired with Cycle I grant funds and is responsible for compiling, drafting, and reporting to the Department of Health and Human Services information regarding grant activities. The Healthcare Data Administrator dedicates 100% of his time to functions associated with the rate review process in Kentucky.

Health Policy Specialist II,
Nancy Phillips \$41,588.00 100% 12 Months \$41,588.00

A new position created with Cycle I grant funds, the Health Policy Specialist receives rate filings, works directly with existing staff to develop and implement new procedures and forms for a more robust rate review process, reviews and makes recommendations regarding statutory and regulatory revisions, manages consumer questions and coordinates complaint investigations regarding rating practices, and coordinates the rate review processes. The Health Policy Specialist dedicates 100% of her time to rate review and grant activities.

Administrative Specialist II,

Wendy Kurtz

\$27,095.00 100% 12 Months \$27,095.00

A new position created with Cycle I grant funds, the Administrative Specialist provides administrative support to the Health Insurance Rates Branch. The Administrative Specialist performs data entry functions to capture more information from rate filings, administratively coordinates the policy rate review functions, and assists in the development of forms necessary to carry out the rate review processes. The Administrative Specialist dedicates 100% of her time to rate review and grant activities.

Internal Actuary, Vacant

\$57,311.00 100% 9 Months \$42,803.00

A new employee expected to be hired using Cycle II grant funds, the Actuary will be employed full-time and, given state salary restrictions, will likely be a new-comer to the actuarial field. The Department expects that this Actuary will be dedicated to the Department's initiatives toward enhancing the established rate review process. This Actuary will provide impartial and unbiased expert advice to the Department with respect to the actuaries' role in reviewing health insurance rate filings. This advice will assist the Department in identifying data analysis techniques, data needs, data integration proposals, and insurer data request process that will enhance rate reviews. Further, this Actuary will develop working relationships with company actuaries in order to better understand rate development and interact with insurers during the rate review process. To account for negotiating the state's procurement process, funding for this position for the first year has been calculated on a 9-month term. Funding for this position for years two and three of the grant period will increase to \$57,311.00

Total: \$270,789.00
Rate Review Grant: \$270,789.00
Other Funding: \$0.00

Exhibit 1B provides a detailed itemization of Personnel expenditures for the second and third year of the Cycle II grant period. For years two and three of the grant period, the anticipated personnel costs total \$285,297.00 for each year.

B. Fringe Benefits

Kentucky's Cycle II rate grant application requests \$104,786.00 in funding to pay for fringe benefits afforded to persons hired under the Cycle I grant and the actuary that the Department intends to hire under the Cycle II grant. In Kentucky, fringe benefits are calculated as follows:

Life Insurance = \$15.00 per employee

Health Insurance = Actual cost or \$7,222.00 per employee

Retirement = Total Salary (Salary + FICA) x 19.82%

Workers' Compensation = \$120.00 per employee

<i>Position Title</i>	<i>Life Ins.</i>	<i>Health Ins.</i>	<i>Retirement</i>	<i>WC Ins.</i>	<i>Total</i>
Information Officer I	\$15.00	\$7,222.00	\$5,218.00	\$120.00	\$12,575.00
Systems Analyst II	\$15.00	\$7,060.00	\$6,944.00	\$120.00	\$14,139.00
Resource Mgmt Analyst I	\$15.00	\$6,920.00	\$5,739.00	\$120.00	\$12,794.00
Healthcare Data Admin.	\$15.00	\$9,086.00	\$11,379.00	\$120.00	\$20,600.00
Health Policy Spec. II	\$15.00	\$8,728.00	\$7,638.00	\$120.00	\$16,501.00
Administrative Spec. II	\$15.00	\$7,222.00	\$4,980.00	\$120.00	\$12,337.00
Internal Actuary	\$15.00	\$7,222.00	\$8,483.00	\$120.00	\$15,840.00

<i>Total:</i>	<i>\$104,786.00</i>
<i>Rate Review Grant:</i>	<i>\$104,786.00</i>
<i>Other Funding:</i>	<i>\$0.00</i>

Exhibit 1B provides a detailed itemization of Fringe Benefit expenditures for the second and third year of the Cycle II grant period. For years two and three of the grant period, the anticipated costs related to providing fringe benefits total \$104,786.00 for each year.

C. Equipment

The Department is requesting \$7,000.00 in Cycle II grant funds to purchase equipment necessary to allow the Department to host Webinars. The Department has agreed to mentor other states that are working to make their rate review process an effective one. Webinar capability will allow the Department to communicate with other states without incurring costs associated with travel. Further, Webinars will allow the Department to host stakeholder forums in order to gather input from insurers regarding the rate review process and changes to the process that the Department is considering. Webinar capability will also permit the Department to hold educational forums for and gather input from consumers regarding health insurance rates, consumer transparency enhancements, and the Department's rate review process. Having the ability to produce Webinars will eliminate the need for health insurance consumers to travel in order to gain rate review information from the Department.

In addition to equipment needed to install Webinar capability, the Department is requesting \$1800.00 in Cycle II grant funds to provide desktop computers for the internal actuary, a new position under Cycle II, and a translator, a new contract under Cycle II. Further, the Department requests \$1,000.00 to purchase a laptop for use by a new contract actuary that will be responsible for audit functions. The actuary will be required to travel to insurer locations to perform rate application and rate derivation audits. A laptop computer will be needed in order to access Department information electronically. Due to contractual terms, privacy considerations, ownership of work product concerns, and security issues, the Department prefers to provide contractors with laptops rather than provide contractors access to Department databases.

For the first year of the Cycle II grant, the total equipments costs are anticipated to be \$9,800.00 and are itemized as follows:

<i>Item Requested</i>	<i>How Many</i>	<i>Unit Cost</i>	<i>Amount</i>
Webinar Capability	1	\$7,000.00	\$7,000.00
Desktop Computer	2	\$900.00	\$1,800.00
Laptop	1	\$1,000.00	\$1,000.00
<i>Total:</i>			<i>\$9,800.00</i>
<i>Rate Review Grant:</i>			<i>\$9,800.00</i>
<i>Other Funding:</i>			<i>\$0.00</i>

The Department does not anticipate any expenditures for equipment from Cycle II grant funds in the second or third year of the grant period.

D. Travel Expenses

Though travel expenses are difficult to predict, the Department anticipates that rate review staff may be required to travel intermittently for the purposes of receiving training, mentoring other states seeking an effective rate review process, and attending meetings held by stakeholders, the federal government, or the states. In anticipation of these travel needs, the Department has predicted that Cycle II funds will be needed to defray the cost of in-state and out-of-state travel. The Department estimates travel costs to be as follows:

In-State Travel

3 trips x 3 persons x 150 miles x .47/mile = \$ 634.50

Out-of-State Travel

Airfare – 3 trips x 3 persons x \$450.00 = \$4,050.00

Lodging – 3 trips x 3 persons x 3 nights x \$250.00 = \$6,750.00

Per Diem - 3 trips x 3 persons x \$36.00 = \$ 972.00

Ground Transportation -- 3 trips x 3 persons x \$100 = \$ 600.00

Total: \$13,006.50
Rate Review Grant: \$13,006.50
Other Funding: \$0.00

The Department anticipates that travel costs in the second and third years of the grant period will be similar to the cost allotted to travel in the first year. Consequently, the Department has budgeted \$13,006.50 in travel costs for years two and three of the grant period.

E. Contractual

The Department currently has two actuaries under contract assigned to review health insurance rates, James E. Drennan with Ingenix Consulting and Ron Burkhardt with Wakely Consulting Group. While Mr. Burkhardt concentrates on the review of rates associated with health insurance products such as long-term care and Medicare supplements, Mr. Drennan devotes 100% of his time while at the Department to the review of rates associated with health benefit plans.

The Department amended its contract with Ingenix Consulting to add John Stark as a consulting actuary to assist the Division in analyzing its rate review process and making enhancements. Mr. Stark is paid from Cycle I grant funds. The Department intends to continue consulting with Mr. Stark regarding any "actuarial-type" enhancements that need to be made to the Department's rate review process. Consequently, the Department is requesting Cycle II funds in order to continue the contract with Mr. Stark.

Using Cycle II grant funds, the Department expects to contract with an additional actuary for the purpose of conducting rate application audits. The Department believes that insurer underwriting practices play an important role in the final rate quote given to prospective insureds. Rate application audits will allow the Department to determine if filed and approved

rates are being appropriately charged to the consumer. Further, rate application audits will allow the Department to evaluate the effect of underwriting on an insured's health insurance premium. This evaluation could potentially lead to future rate filing requirements. Lastly, rate application audits will assist the Department in collecting information that will be useful in developing criteria for certification of Qualified Health Plans to participate in the Exchange.

The new contract actuary may also be engaged to participate in multi-state examinations to review insurer rate derivation practices and loss ratio calculations. The examination findings from this type of audit will allow the Department to determine how insurance rates are derived at the insurer level. Further, the examinations will assist the Department in determining whether federal medical loss ratio standards are being met.

With Cycle II grant funds, the Department expects to contract with a Translator to develop consumer rate filing communications that are culturally and linguistically appropriate given the demographics in Kentucky. The Translator will make certain that rate filing information is available to non-English speaking residents of Kentucky. Given that rate filing information is naturally confusing, it is imperative that the Department make information available to those with language barriers in a manner they can easily understand. The Translator will provide translation services to the Department with respect to rate filing information included on the Department's Website as well as any written literature regarding health insurance rates that the Department may publish such as FAQs.

<i>Contractor Name</i>	<i>Contract Rate Total</i>	<i>Contract Travel Total</i>	<i>Total</i>
Ingenix Consulting, John Stark	\$221,544.00	\$15,000.00	\$236,544.00

Name of Consultant: John Stark – qualifications outlined in bio which is an exhibit to the grant Project Narrative. Ingenix Consulting was selected through

Kentucky's procurement process, KRS Chapter 45A. Bids are accepted after solicitation through the Request for Proposal process. Responses are reviewed and scored by the Department of Insurance. The Vendor is then chosen based on scores achieved after a review of the Department's evaluation criteria against the vendor responses.

Organizational Affiliation: Ingenix Consulting

Nature of Services to be Rendered: Through the contract with Ingenix Consulting, the Department utilizes the consulting services provided by John Stark solely for the purposes of determining how the Department's rate review process may be enhanced.

Relevance of Service to the Project: The Cycle II program for the State of Kentucky is for the purposes of enhancing the Department's review of health insurance rates. The actuary's main function is to review the Department's rate review process and federal law requirements and make rate review enhancement recommendations. Consequently, the actuary's expertise in identifying possible rate review enhancements is directly related to the program's objectives.

Number of Days of Consultation: Contract period is in effect July 1, 2010, through June 30, 2012. The contract is not limited by the number of days but rather by a maximum contract price of \$405,000.00 for fiscal year 2011 and \$135,000.00 for fiscal year 2012. Travel expenses are also limited to \$42,450.00 for fiscal year 2011 and \$14,150.00 for fiscal year 2012.

Expected Rate of Consultation: \$340.00 per hour

Method of Accountability: Actuary reports directly to Jill Mitchell, the Manager of the Health Insurance Rates Branch. Ms. Mitchell reviews all rate review determinations and the methods of review utilized by the actuaries. Ms. Mitchell also accepts, considers, and presents for review to the Department, recommendations submitted by the actuary.

New Audit Actuary			
(Vacant)	\$400,000.00	\$50,000.00	\$450,000.00

A new contract expected to be negotiated with Cycle II grant funds, the actuary will, on a part-time basis, provide rate application reviews with respect to specific insurers. These reviews will assist the Department in determining the effect that underwriting has on rates, develop a process for identifying and reporting rate information to the Exchange, develop a process for certifying qualified health plans for the Exchange, determine how to normalize rating/underwriting methodologies given insurers' underlying underwriting differences, and develop a process for auditing quotes within the Exchange. It is anticipated that the Actuary will also conduct rate derivation audits as well as review medical loss ratio

calculations. The Actuary will dedicate approximately 100% of his/her time, as limited by the contractual arrangement, to rate review and grant activities under the contract.

Translator			
(Vacant)	\$ 50,000.00	\$0	\$ 50,000.00

A new contract expected to be negotiated with Cycle II grant funds, the Translator will, on a part-time basis, make certain that consumer rate communications are culturally and linguistically appropriate given the demographics in the state of Kentucky. The Translator will also ensure that rate summaries are understandable and in the appropriate language needed to best serve Kentuckians. The Translator will be utilized on an as-needed basis and will dedicate approximately 100% of his/her time, as limited by the contractual arrangement, to rate review and grant activities under the contract.

<i>Total:</i>	<i>\$736,544.00</i>
<i>Rate Review Grant:</i>	<i>\$736,544.00</i>
<i>Other Funding:</i>	<i>\$0.00</i>

The Department anticipates that the contractual costs in the second and third years of the Cycle II grant period will decrease for the actuarial consultant and translator services. However, the Department anticipates that the actuarial costs related to rate application and derivation audits may increase slightly in the last two years of the grant period. For the second and third year of the grant period, the Department has allocated a total of \$518,187.50 to contract costs for each year.

F. Other Costs

The Department anticipates that it will incur costs associated with holding stakeholder forums for the purposes of gathering information and educating interested consumers. The anticipated costs associated with stakeholder forums have been allocated to the "Other" category of expenses. Also allocated to the "Other" cost category will be expenses associated with procuring software licenses for rate review staff, including new contracted actuarial personnel.

The Department intends to provide resources using Cycle II funds to the National Association of Insurance Commissioners ("NAIC"). These funds will be used by the NAIC to make additional enhancements to the SERFF database. These enhancements include the following:

- The SERFF system will be enhanced to assist with the collection of all parts of the industry Preliminary Justification for rate increases;
- SERFF will be modified to allow the states to enter a Summary of Rate Review and/or a State Filing Summary. This enhancement will result in the need for additional enhancements to the Department's internal database to reflect SERFF changes and capture the data;
- The Health Filing Access Interface will be enhanced to allow states to display rate filing information and to accept and process public comments on rate filings;

Again, funds to be provided to the NAIC for SERFF enhancements have been allocated to the "Other" category. A breakdown of the "Other" expenses is as follows:

<i>Type of Expenditure</i>	<i>Amount Requested</i>
IT Expenditure – SERFF Enhancements	\$20,856.00
2 Stakeholder Forums	
Facility Rental @ \$1,000.00 each	\$ 2,000.00
Refreshments @ \$375.00 each	\$ 750.00
Speaker Reimbursement @ \$500.00 each	\$ 1,000.00
Software Licenses 2 @ \$1,250	\$ 2,500.00
	<i>Total:</i> \$27,106.00
	<i>Rate Review Grant:</i> \$27,106.00
	<i>Other Funding:</i> \$0.00

While there may be a need in the second and third years of the Cycle II grant period for additional enhancements to the SERFF database, the Department anticipates that the cost of these enhancements will be less than in the first year. For this reason, the Department has allocated \$10,000.00 in grant years two and three for additional SERFF enhancements.

The Department also anticipates spending less on stakeholder forums and software licenses in years two and three of the Cycle II grant period. Consequently, the Department has allocated \$1,200.00 to defray the costs of holding stakeholder forums and \$1,000.00 for software licenses in the second and third years of the grant period.

G. Indirect Costs

The Department has allocated \$63,138.50 to indirect charges for costs associated with items such as procuring office furniture/supplies, maintaining and procuring office space, and reimbursement for telephone charges.

<i>Total:</i>	<i>\$63,138.50</i>
<i>Rate Review Grant:</i>	<i>\$63,138.50</i>
<i>Other Funding:</i>	<i>\$0.00</i>

For the second and third years of the Cycle II rate grant period, the Department has allocated \$66,523.00 per year to indirect charges. Indirect charges will be charged in accordance with the indirect cost allocation plan which is attached and labeled **Exhibit 2B**.

III. TOTAL BUDGET REQUESTED AMOUNTS

As noted above, for the first year of the Cycle II grant period, the Department is requesting \$1,000,000 plus an additional \$225,170 in "Workload" grant funds. For the second and third year of the grant period, the Department is requesting \$1,000,000 for each year. Per category, below is a summary of the Department's proposed Cycle II rate grant budget for the first, second, and third years of the grant period.

A. First Year

<i>Budget Category</i>	<i>Amount Requested</i>
Personnel	\$270,789.00
Fringe Benefits	\$104,786.00
Equipment	\$ 9,800.00
Travel	\$ 13,006.50
Contractual	\$736,544.00
Indirect Charges	\$ 63,138.50
Other	\$ 27,106.00
<i>Total First Year</i>	<i>\$1,225,170.00</i>

B. Second Year

<i>Budget Category</i>	<i>Amount Requested</i>
Personnel	\$285,297.00
Fringe Benefits	\$104,786.00
Equipment	\$ 00.00
Travel	\$ 13,006.50
Contractual	\$518,187.50
Indirect Charges	\$ 66,523.00
Other	\$ 12,200.00
<i>Total Second Year</i>	<i>\$1,000,000.00</i>

C. Third Year

<i>Budget Category</i>	<i>Amount Requested</i>
Personnel	\$285,297.00

Fringe Benefits	\$104,786.00
Equipment	\$ 00.00
Travel	\$ 13,006.50
Contractual	\$518,187.50
Indirect Charges	\$ 66,523.00
Other	\$ 12,200.00
<i>Total Third Year</i>	<i>\$1,000,000.00</i>

III. MAINTENANCE OF EFFORT

By submitting this grant application, the Department gives its assurances that grant funds will not be used as a substitute for existing funding for health insurance rate review efforts. Rather, grant funds will only be used to enhance and improve Kentucky's existing rate review processes.

EXHIBIT 2B

Indirect Cost Allocation Plan



United States Department of the Interior
National Business Center
ACQUISITION SERVICES DIRECTORATE
Indirect Cost Services
2180 Harvard Street, Suite 430
Sacramento, CA 95815



January 26, 2010

Ms. Holly McCoy-Johnson, Executive Director
Kentucky Environmental and Public Protection Cabinet
500 Mero Street
4th Floor Capital Plaza Tower
Frankfort, Kentucky 40601

Dear Ms. McCoy-Johnson:

We have reviewed your organization's revised Cost Allocation Plan (Plan), including your Cost Policy Statement, dated January 6, 2010. The Kentucky Environmental and Public Protection Cabinet has chosen not to employ an indirect cost rate, but to allocate actual costs monthly in accordance with the Cost Allocation Plan.

The allocation methodologies described in your Plan are hereby approved on a final basis for fiscal year (FY) ending June 30, 2007 and on a provisional basis for FY ending June 30, 2009.

The FY 2008 Plan must be finalized, based upon financial data for FY 2008, which was due in our office before January 1, 2009. The Plan must be supported by the attached list of required documentation. At the time the Plan is finalized, you can obtain a provisional Plan for FY ending June 30, 2010.

Acceptance of the actual costs in accordance with the approved Plan is subject to the following conditions:

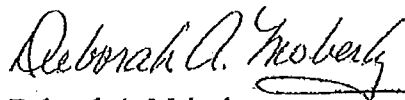
1. The information contained in the Plan and provided by your organization in connection with our review of the Plan is complete and accurate in all material respects.
2. The actual costs claimed by your organization are allowable under prevailing cost principles, applicable law, and program regulations.
3. The claims conform to the administrative and statutory limitations against which the claims are made.

This approval relates only to the methods of identifying and allocating costs to the programs. Nothing contained herein should be construed as approving activities not otherwise authorized by approved program plans or federal legislation and regulations.

The Plan, and the costs allocated therein, may be subsequently reviewed or audited by authorized federal staff. The disclosure of inequities, violations of laws and regulations, or noncompliance with award terms and conditions may require changes to the Plan and may result in questioned costs.

If you have any questions, please contact Te Lam-Vi at 916-566-7111 or email at Te_Vi@nbc.gov.

Sincerely,

A handwritten signature in cursive script, reading "Deborah A. Moberly". The signature is written in dark ink and is positioned above the printed name and title.

Deborah A. Moberly
Indirect Cost Coordinator

Attachment

Ref: J: Kentucky/Eppc709/Eppc-CAP.07F&09P

Attachment

Required Documentation to Finalize Cost Allocation Plan

1. Organizational chart.
2. Complete Cost Policy Statement describing all accounting policies and narrating in detail the proposed final Cost Allocation Plan. This Plan/Policy must identify the procedures used to identify, measure, and allocate all costs to each benefiting activity. This Plan/Policy should be signed by an authorized official.
3. Audited financial statements and related OMB Circular A-133 reports.
4. Cost Allocation Worksheet detailing expenses by function and cost category and reconciled with the financial statements or a budget for the applicable fiscal year(s).
 - a. Supporting schedule of direct costs incurred by cost category, identified by specific government grant, contract, or other non-government activities.
 - b. Supporting schedule of indirect costs identified by cost category claimed as direct costs under specific government grants, contracts, or other non-government activities.
5. A listing of grants and contracts by federal agency, amounts, periods of performance, and the indirect cost (overhead) limitations (if any) applicable to each, such as ceiling rates or amounts restricted by administrative or statutory regulations.
6. Statement of employee benefits. This document should contain the actual costs of the benefits earned/paid to employees.
7. A copy of the approved grant or contract budget(s) by line item with the U.S. Department of the Interior and any applicable clauses on indirect costs (overhead).
8. Certification signed by a duly authorized official of the organization stating that (1) information contained in the Plan was prepared in accordance with 2 CFR 230 (formerly OMB Circular A-122), (2) the costs have been accorded consistent treatment in accordance with generally accepted accounting principles, (3) an adequate accounting and statistical system exists to support claims that will be made under the Plan, (4) the information provided in support of the Cost Allocation Plan is accurate, and (5) all federally unallowable costs have been excluded from allocations.